

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

Cowlitz County

Audit Period
January 1, 2011 through December 31, 2011

Report No. 1008385

Issue Date
September 26, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 26, 2012

Board of Commissioners
Cowlitz County
Kelso, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Cowlitz County's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the County's financial condition.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Cowlitz County January 1, 2011 through December 31, 2011

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Federal Summary

Cowlitz County January 1, 2011 through December 31, 2011

The results of our audit of Cowlitz County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified opinion was issued on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the County.

FEDERAL AWARDS

Internal Control Over Major Programs:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the County's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
16.738	JAG Program Cluster - Edward Byrne Memorial Justice Assistance Program
16.803	JAG Program Cluster - ARRA - Edward Byrne Memorial Justice (Recovery Act)
66.458	ARRA - Capitalization Grants for Clean Water State Revolving Funds (Recovery Act)
93.563	Child Support Enforcement
93.778	Medicaid Cluster - Medical Assistance Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The County qualified as a low-risk auditee under OMB Circular A-133.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**Cowlitz County
January 1, 2011 through December 31, 2011**

Board of Commissioners
Cowlitz County
Kelso, Washington

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Cowlitz County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 17, 2012. During the year ended December 31, 2011, the County implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of the County's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the audit committee, management, the Board of Commissioners, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 17, 2012

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct
and Material Effect on Each Major Program and
on Internal Control over Compliance in
Accordance with OMB Circular A-133**

**Cowlitz County
January 1, 2011 through December 31, 2011**

Board of Commissioners
Cowlitz County
Kelso, Washington

COMPLIANCE

We have audited the compliance of Cowlitz County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The County's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

INTERNAL CONTROL OVER COMPLIANCE

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the audit committee, management, the Board of Commissioners, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



BRIAN SONNTAG, CGFM
STATE AUDITOR

September 17, 2012

Independent Auditor's Report on Financial Statements

Cowlitz County
January 1, 2011 through December 31, 2011

Board of Commissioners
Cowlitz County
Kelso, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Cowlitz County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed on page 9. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Cowlitz County, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, County Road and Community Mental Health funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Notes 1 and 12, during the year ended December 31, 2011, the County implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 19 and information on postemployment benefits other than pensions on page 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



BRIAN SONNTAG, CGFM
STATE AUDITOR

September 17, 2012

Financial Section

Cowlitz County
January 1, 2011 through December 31, 2011

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2011

BASIC FINANCIAL STATEMENTS

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Statement of Activities – 2011

Balance Sheet – Governmental Funds – 2011

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets – 2011

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2011

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities – 2011

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (GAAP Basis) and Actual – General Fund – 2011

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (GAAP Basis) and Actual – County Road – 2011

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (GAAP Basis) and Actual – Community Mental Health – 2011

Statement of Fund Net Assets – Proprietary Funds – 2011

Statement of Revenues, Expenses and Changes in Net Fund Assets – Proprietary Funds – 2011

Statement of Cash Flows – Proprietary Funds – 2011

Statement of Fiduciary Net Assets – 2011

Notes to Financial Statements – 2011

REQUIRED SUPPLEMENTARY INFORMATION

Other Post Employment Benefits Schedule of Funding Progress – 2011

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards and Notes – 2011

Management's Discussion and Analysis

Cowlitz County's discussion and analysis are intended to serve as an introduction to and overview of the County's basic financial statements for fiscal year ended December 31, 2011. The discussion emphasizes results for calendar year 2011 with comparison to the prior year. We encourage readers to consider information presented here in conjunction with the County's financial statements, which immediately follow this discussion.

Cowlitz County provides a wide range of services including the safety and security of persons and property; criminal prosecution, adjudication, detention and rehabilitation, public parks and recreation facilities, road construction and maintenance, flood and drainage control, public health care, community planning and developing, zoning and code compliance, sanitary landfill, and water and sewer services. Other services include property assessment, tax collection, elections, issuance of permits and licenses, and other general administrative services.

I. Financial Highlights

- The total assets of Cowlitz County exceeded its liabilities by \$208.1 million. Net assets invested in capital assets (net of depreciation and related debt) accounts for 76.60% of this amount with a value of \$159.4 million. Of the remaining net assets, \$13.3 million of governmental activity net assets and \$19.8 million of business-type activity is available to meet County ongoing obligations to citizens and creditors, without legal restriction.
- Cowlitz County's total net assets decreased \$2.9 million in 2011. The net assets of business-type activities increased \$329.3 thousand and net assets of governmental activities decreased \$3.2 million from 2011 operations.
- At December 31, 2011 Cowlitz County's governmental funds reported a combined ending fund balance of 45.7 million, a decrease of \$5.4 million compared to the prior year.
- The General Fund unassigned fund balance at December 31, 2011 was \$6.6 million, a 25.0% decrease compared to the December 31, 2010 total of \$8.8 million. The December 31, 2011 unassigned fund balance represents 16.79% of the 2011 General Fund expenditures and transfers out.
- The County Road Fund assigned fund balance at December 31, 2011 totaled \$5.7 million, an increase of 23.91% compared to the December 31, 2010 balance. The ending assigned fund balance represents 43.85% of the 2011 Road Fund expenditures and transfers out.
- Cowlitz County's total long-term debt as of December 31, 2011 totaled \$49.6 million, a net decrease of \$600 thousand over the previous year.
- At December 31, 2011 the County's remaining capacity for issuing non-voted debt is \$104.7 million.

II. Overview of the Financial Statements

Cowlitz County's annual report consists of a series of basic financial statements including: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial

statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are intended to provide readers with a broad overview of Cowlitz County's finances, in a manner similar to private-sector business. These statements provide information about where resources were allocated and about the activities of the County as a whole.

The *statement of net assets* presents information on all of the Cowlitz County's assets and liabilities, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. However, consideration should also be given to non-financial factors such as changes in the property tax base and the condition of roads and other assets to assess the overall health of the County.

The *statement of activities* presents information showing how the County's net assets changed during the most recent fiscal year. It separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program). It shows to what extent each program has to rely on taxes for funding. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow flows in future fiscal periods. (E.g. uncollected taxes and special assessments, and unused vacation leave, will be included in the statement of activities as revenues and expenses, even though the cash associated with not be received or paid in 2011.)

Both of the government-wide financial statements (statement of net assets and statement of activities) distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Cowlitz County include general government, public safety, judicial, physical environment, transportation, economic development, mental and physical health and culture and recreation. The business-type activities of Cowlitz County include water and sewer services to county residences, operation of a solid waste landfill site, a 911 communication center, maintaining law enforcement records, emergency services for the County and the exposition center used to host the County fair and other community-wide events.

The government-wide financial statements include not only the County itself (known as the primary government), but also a legally separate entity - the Three Rivers Regional Wastewater Authority (TRRWA) for which the County has issued bonds to help the finance their construction projects, and a legally separate entity – the Public Facilities District (PFD) that has a five member board appointed by the Board of County Commissioners that also had some debt issued by the County for its construction project. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The TRRWA board includes Cowlitz County, the cities of Longview and Kelso and the Beacon Hill Sewer District.

The government-wide financial statements can be found within the Basic Financial Statements section of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds (general fund, special revenue funds, debt service funds and capital funds), proprietary funds (enterprise funds and internal service funds), and fiduciary funds (trust/agency funds). Fund financial statements explain how services are financed in the short-term as well as what remains available for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County are most significant funds rather than the County as a whole.

Some funds are required to be established by state law and by bond covenants. The Board of Commissioners has established many other funds to help it control and manage money for particular purposes or to show that the County is meeting legal responsibilities for using certain taxes, grants and other money.

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using the modified accrual basis of accounting.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditure, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Cowlitz County had 31 individual governmental funds at the close of 2011 used for financial reporting purposes. Fund information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The following funds: General Fund, Road Fund, Community Mental Health Fund, the 2006 Special Sewer Revenue Bond—debt service fund, and Capital Improvements Fund, are classified as major funds, based on criteria established by GASB Statement #34. (GASB Statement #34 defines a major fund as a fund who's assets, liabilities, revenues or expenditures comprise (1) at least 10% of the total dollar amount of the same category within either all government or all enterprise funds, as appropriate, and (2) at least 5% of the total dollar amount of all governmental and enterprise funds combined for the same category. The General Fund is always considered a major fund.) Data from the other 26 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Cowlitz County adopts a biennial budget comprised of two annual budgets. A budgetary comparison statement to actual expenditures has been provided, in the section identified required supplementary information, for the General Fund and the other major special revenue funds identified in the previous paragraph to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found within the Basic Financial Statement section of this report.

Proprietary Funds. Cowlitz County maintains two different types of proprietary funds: enterprise funds and internal service funds.

Enterprise funds are used to report the functions presented as business-type activities in the government-wide financial statement, but provide more detail. The proprietary fund financial statements provide separate information for the Water/Sewer Utility and the Solid Waste Landfill; both are identified as major funds. The 911 Communication Center, Law Enforcement Records, Emergency Management for coordinating disaster functions and the Exposition Center that hosts the County Fair and other community-wide events are non-major enterprise funds and are presented on a combined basis in the proprietary fund financial statements.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. Cowlitz County uses internal service funds to account for its fleet of vehicles, management information systems, general liability and insurance services, workers' compensation and unemployment compensation costs. The County's internal service funds also account for the operation of telephone, postage, paper supplies, printing services, and elections. Because all of these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide statements.

All Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found within the Basic Financial Statement section of this report.

Fiduciary Funds of Cowlitz County are used to account for assets held by the county on behalf of other governmental entities held for the benefit of parties outside the government which are classified as agency funds. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to finance County operations. The statements detailing these funds provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

The basic fiduciary funds financial statements can be found within the Basic Financial Statement section of this report.

Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

III. Condensed Financial Information

Government-wide Financial Analysis. As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. Cowlitz County, assets exceed liabilities by \$208.1 million at December 31, 2011 compared to \$211.0 million at December 31, 2010.

Prior to 2002, infrastructure (roads, bridges, drainage systems, etc.) was not included in capital assets reported for Cowlitz County. GASB Statement #34 requires that all capital assets including infrastructure be reported. Cowlitz County has elected to use the depreciation method (not the conditional assessment approach) to account for infrastructure assets. Infrastructure at December 31, 2011 net of depreciation totals \$90.3 million of Cowlitz County's capital assets net of related debt.

Cowlitz County uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Cowlitz County's Net Assets

	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 68,632,296	\$ 72,277,499	34,505,913	33,657,752	\$ 103,138,209	\$ 105,935,251
Capital assets (net of depreciation)	144,484,465	144,114,296	16,382,048	16,219,269	160,866,513	160,333,565
Total assets	\$ 213,116,761	\$ 216,391,795	50,887,961	49,877,021	264,004,722	266,268,816
Long-term liabilities	34,254,676	35,595,992	15,391,142	14,563,682	49,645,818	50,159,674
Other liabilities	5,501,101	4,202,738	789,934	935,725	6,291,035	5,138,463
Total liabilities	39,755,777	39,798,730	16,181,076	15,499,407	55,936,853	55,298,137
Net Assets:						
Invested in capital assets, net of related debt	144,484,465	140,772,368	14,887,126	14,739,525	159,371,591	155,511,893
Restricted	15,603,696	15,043,650	19,152	19,115	15,622,848	15,062,765
Unrestricted	13,272,823	20,777,047	19,800,607	19,618,974	33,073,430	40,396,021
Total net assets	\$ 173,360,984	\$ 176,593,065	\$ 34,706,885	\$ 34,377,614	\$ 208,067,869	\$ 210,970,679

At December 31, 2011 the County had positive balances in governmental and business-type activities and in total net assets. The same situation existed for 2010. Cowlitz County's net assets decreased \$2.90 million in 2011 compared to December 31, 2010.

Statement of Changes in Net Assets. Key elements in the net decrease of \$2.90 million in net assets for 2011 along with comparative amounts for 2010 follows:

Cowlitz County –Changes in Net Assets

	Governmental Activities		Business-type activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues						
<i>Program Revenues</i>						
Charges for services	\$ 24,482,267	\$ 25,189,527	\$ 10,498,053	\$ 10,358,528	\$ 34,980,320	\$ 35,548,055
Operating grants & contributions	7,773,220	7,112,044	308,296	272,340	8,081,516	7,384,384
Capital grants and contributions	1,363,495	1,438,658	579,298	1,296,150	1,942,793	2,734,808
<i>General Revenues</i>						
Taxes	37,727,105	38,515,477	958,402	682,469	38,685,507	39,197,946
Gain (loss) on sale of assets	668,563	88,646	(125,413)	46,240	543,150	134,886
Miscellaneous	-	1,360,881				1,360,881
Interest earned on investments	253,198	419,853	58,711	87,408	311,909	507,261
Total revenues	72,267,848	74,125,086	12,277,347	12,743,135	84,545,195	86,868,221
Program Expenses						
General Government	11,117,076	10,193,419			11,117,076	10,193,419
Public Safety	21,592,210	20,886,497	4,080,833	4,125,031	25,673,043	25,011,528
Judicial	5,857,861	5,699,772			5,857,861	5,699,772
Physical environment	714,475	576,626			714,475	576,626
Transportation-roads	15,111,924	15,528,516			15,111,924	15,528,516
Economic environment	3,486,399	3,336,756			3,486,399	3,336,756
Health	14,985,584	14,262,163			14,985,584	14,262,163
Culture & recreation	1,155,935	1,086,015	2,212,768	2,231,055	3,368,703	3,317,070
Solid Waste			4,360,568	3,721,769	4,360,568	3,721,769
Water/Sewer			1,485,969	1,398,250	1,485,969	1,398,250
Interest on long-term debt	1,286,403	1,369,041			1,286,403	1,369,041
Total Expenses	75,307,867	72,938,805	12,140,138	11,476,105	87,448,005	84,414,910
Excess (deficiency) of revenues over (under) expenses	(3,040,019)	1,186,281	137,209	1,267,030	(2,902,810)	2,453,311
Transfers	(192,062)	(237,580)	192,062	237,580	-	-
Change in Net Assets	(3,232,081)	948,701	329,271	1,504,610	(2,902,810)	2,453,311
Net assets January 1	176,593,065	174,842,728	34,377,614	33,315,482	210,970,679	208,158,210
Prior period adjustment	-	801,636	-	(442,478)	-	359,158
Net assets -December 31	\$ 173,360,984	\$ 176,593,065	\$ 34,706,885	\$ 34,377,614	\$ 208,067,869	\$ 210,970,679

Cowlitz County revenue totaled \$84.5 million in 2011. Governmental activities provided \$72.3 million, 85.56%, while business activities provided \$12.3 million. Taxes - \$38.7 million account for 45.80% of the 2011 primary government revenues compared to \$39.2 million in 2010.

Governmental activities net assets of Cowlitz County decreased by \$3.2 million in 2011. It consists of governmental expenses in excess of governmental revenues by \$3.0 million decreased by \$192 thousand in governmental transfers out to business-type activities.

Charges for services revenue totaled \$24.5 million in 2011 compared to \$25.2 million in 2010. Charges for service revenue was up in four programs and down in four programs as shown on the Statement of Activities. Capital grants and capital contributions totaled \$1.4 million in 2011 and 2010. County governmental activity expenses in 2011 totaled \$75.3 million, a 3.29% increase compared to 2010.

Business type expenses for Cowlitz County in 2011 totaled \$12.1 million compared to \$11.5 million in 2010. Expenses included public safety programs consisting of (911 communications, law enforcement records and emergency management) - \$4.1 million; the solid waste landfill \$4.4 million; the water sewer utility \$1.5 million in expenses and the exposition center had \$2.2 million of expenses in 2011.

Business type activities net assets increased \$329.3 thousand in 2011. Charges for services revenues of \$10.5 million accounted for 85.37% of total business revenues.

Other business revenues consisted of \$958.4 thousand in 911 communication taxes. And interest earnings on investments totaled \$58.7 thousand in 2011 compared to \$87.4 thousand in 2010.

The Solid Waste Utility revenue of \$4.0 million accounted for 32.52% of the business-type revenues reported in 2011. The Solid Waste charges for service revenues totaled \$3.9 million in 2011 a decrease of \$100 thousand, 2.50%, compared to 2010. Net assets of the Solid Waste Utility totaled \$21.0 million at December 31, 2011, a decrease of \$330.5 thousand in 2011. Interest income in 2011 totaled \$53.3 thousand versus \$80 thousand in 2010.

The Water-Sewer Utility charges for service revenues totaled \$1.4 million in 2011, a \$100 thousand increase compared to 2010. The Water Sewer net assets increased \$286.6 thousand in 2011 to \$8.5 million.

Financial Analysis of County Funds. As noted earlier, Cowlitz County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of Cowlitz County’s governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the County’s financing requirements, in particular, the unassigned fund balance may serve as a useful measure of the County’s net resources available for spending at the end of the fiscal year.

Governmental Funds Balance Sheet Analysis. The General Fund, the County Road Fund, Community Mental Health Fund, Debt Service-2006 Special Sewer Revenue, and the Capital Improvements Fund are the County’s major governmental funds. These funds account for 68.27% of the total governmental funds as of the December 31, 2011 ending fund balance.

	Balance	Percent
General Fund	\$ 6,560,666	14.35%
Road Fund	5,717,220	12.51%
Community Mental Health	3,368,676	7.37%
2006 Special Sewer Revenue Bonds	11,205,000	24.51%
Capital Improvement Fund	4,357,018	9.53%
Other Governmental Funds	14,506,984	31.73%
Total Governmental Fund Balance	<u>\$ 45,715,564</u>	<u>100.00%</u>

The Capital Improvements fund balance totaled \$4.4 million at December 31, 2011; this represents 9.53% of the governmental funds fund balance. Some of the fund balance is restricted consisting of \$155 thousand for REET Technology, \$755.3 thousand for economic environment and \$58.5 thousand for physical environment. \$857.4 thousand is classified as non-spendable for long term receivables.

The 2006 Debt Service fund had \$11.2 million in fund balance at December 31, 2011. The non-major debt service funds had \$9.0 million in fund balance at December 31, 2011. This represents receivables owing from other districts as well as cash for future debt principal. The fund balance for the debt service funds are on the modified accrual basis - the debt associated with those funds does not appear in the governmental fund statements but does appear on the entity wide statement of net assets offsetting the debt service positive fund balances.

Therefore \$20.2 million of the governmental funds December 31, 2011 total fund balance of \$45.7 million is actually restricted to paying long-term debt. Excluding the debt service fund balances the governmental funds fund balance at December 31, 2011 was \$25.5 million compared to \$30.0 million at December 31, 2010.

Approximately 14.35% of the governmental fund's fund balance (\$6.6 million) constitutes unassigned fund balance. However, the County does have a minimum fund balance policy discussed in Note 1 to the Notes to the Financial Statements. \$10.9 million (23.85%) constitutes assigned fund balance in the appropriate fund types as shown in Note 1 in the Notes to the Financial Statements. The remainder of fund balance is classified as nonspendable, restricted, or committed to indicate that it is not available for new spending as discussed in the notes.

Governmental Funds Revenue/Expenditure Analysis. The following exhibit and chart shows the revenue and expenditure amounts for the major governmental funds and all other governmental funds in 2011:

	Revenues	Expenditures
General Fund	\$36,368,075	\$39,309,716
County Road	14,174,965	13,014,505
Community Mental Health	10,871,919	11,116,504
Debt Svc.- 2006 Special Sewer Rev. Bond	563,281	1,118,281
Capital Improvements	2,035,585	5,150,437
Other Governmental Funds	10,965,103	10,684,463

Governmental fund revenues in 2011 totaled \$75.0 million which is more than 2010 governmental fund revenues of \$74.1 million by \$900 thousand.

The **General Fund** is the chief operating fund of Cowlitz County. At December 31, 2011 the unassigned fund balance of the General Fund was \$6.6 million; this represents 14.35% of the governmental funds' fund balances total. The General Fund's 2011 fund balance decreased \$2.9 million compared to a \$2.1 million increase for 2010. The General Fund had \$36.4 million in revenues in 2011 compared to \$38.7 million in 2010. Property tax revenue totaled \$17.3 million in 2011 compared to \$17.9 million in 2010. The 2011 General Fund sales tax revenues totaled \$4.6 million, \$1.1 million less than the \$5.7 million 2010. General Fund 2011 expenditures totaled \$39.3 million compared to \$34.9 million for 2010. Public Safety expenditures of the General Fund of \$18.8 million represent 47.84% of the General Fund expenditures.

The General Fund transferred out in 2011 to support other County funds totaled \$2.1 million compared to \$1.8 million in 2010.

The **Capital Improvements Fund's** 2011 revenues of \$1.8 million was less than expenditures by over \$2.6 million. The total of other financing sources (uses), which includes transfers in and transfers out coupled with revenue and expenditures resulted in a net decrease to the Capital Improvements fund balance of \$3.1 million for the year. The December 31, 2011 fund balance totaled \$4.4 million.

The **County Road's** fund balance increased \$1.2 million to \$5.7 million at December 31, 2011. Total revenues in 2011 were \$14.2 million compared to \$13.7 million in 2010. Road Fund expenditures for 2011 totaled \$13.0 million compared to \$14.3 million in 2010. Road construction expenditures totaled \$2.2 million compared to \$2.4 million in 2010.

Intergovernmental revenues of \$5.0 million in 2011 represents a \$300 thousand decrease over 2010 intergovernmental revenues.

The **Community Mental Health's** fund balance at December 31, 2011 totaled \$3.4 million. This was a decrease of \$244.6 thousand from 2010. Revenues were \$10.9 million in 2011 compared to \$11.1 million in 2010. Expenditures were \$11.1 million in 2011 compared to \$10.2 million in 2010. The County contracts with outside parties to provide mental health, substance abuse and developmental disabilities programs.

The **2006 Spec. Sewer Revenue Debt Service** fund balance is \$11.2 million. Three Rivers Regional Wastewater Authority (TRRWA) has agreed to pay the debt on this issue which has annual principal payments through 2025.

Proprietary Funds. Cowlitz County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The December 31, 2011 unrestricted fund balances and changes in unrestricted net assets of the enterprise funds for 2011 were:

	Unrestricted Net Assets 12/31/11	Increase (Decrease) for Year
Water Sewer	\$ 1,255,745	\$ 88,088
Solid Waste	16,185,701	(526,653)
Non-major Enterprise Funds	2,350,015	595,106

Net assets include restricted and unrestricted fund balance. In 2011 the enterprise funds combined net assets increased \$304 thousand from operations.

Enterprise Funds Net Assets Analysis. Cowlitz County has two major enterprise funds, the Solid Waste Fund and the Water Sewer Fund, that account for 84.15% of the \$34.7 million net assets for all enterprise funds at December 31, 2011.

IV. Budget Analysis –General Fund Budgetary Highlights

The net difference between the original General Fund budget expenditures for 2011 and the final amended budget was \$319.2 thousand decrease in appropriations, a small decrease over the original budget of \$40.6 million. The amended changes to appropriations for 2011 were as follows:

Increases (Decreases) To Budget	Activity
\$ 12,800	General Government
(7,000)	Public Safety
52,000	Judicial
6,500	Mental & Physical health
254,900	Transfers Out

V. Capital Assets and Long-Term Debt Administration

Capital Assets. Cowlitz County's capital assets for its governmental and business-type activities as of December 31, 2011 totals \$160.9 million (net of accumulated depreciation). The capital

assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, and bridges and construction in progress.

The total increase in Cowlitz County’s capital assets net of depreciation was \$532.9 thousand in 2011. This consisted of a \$370.2 thousand increase in governmental activity capital assets and a \$162.8 thousand increase in business-type activity capital assets.

	COWLITZ COUNTY CAPITAL ASSETS (net of depreciation)					
	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 11,305,666	\$ 11,179,750	\$ 1,148,600	\$ 1,148,600	\$ 12,454,266	\$ 12,328,350
Buildings& Syst.	31,862,498	31,093,458	9,293,879	7,591,290	41,156,377	38,684,748
Improve other than Buildings	3,429,066	3,578,142	2,923,876	3,403,664	6,352,942	6,981,806
Machinery&Equip.	6,310,241	5,577,610	1,932,257	2,222,920	8,242,498	7,800,530
Intangible	70,881	84,479	16,453	23,127	87,334	107,606
Infrastructure	90,257,462	91,630,159	-	-	90,257,462	91,630,159
Construction in Progress	1,248,651	970,698	1,066,983	1,829,669	2,315,634	2,800,367
Total	\$ 144,484,465	\$ 144,114,296	\$ 16,382,048	\$ 16,219,270	\$ 160,866,513	\$ 160,333,566

For more information see note disclosure 4D.

Long-Term Debt. At December 31, 2011 Cowlitz County has \$34.3 million in long-term debt owed from *governmental activities* and \$15.4 million in long-term debt for *business type activities*.

	COWLITZ COUNTY OUTSTANDING DEBT General Obligation and Revenue Bonds					
	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$25,836,250	\$27,165,000	\$0	\$0	\$25,836,250	\$27,165,000
Special assessment bonds with Govt. commitment	1,657,682	1,834,190			1,657,682	1,834,190
	\$27,493,932	\$28,999,190	\$0	\$0	\$27,493,932	\$28,999,190

For more information see note disclosure 9.

VI. Economic Factors and Budgets

The Board of Commissioners considered many factors when setting the budget, tax rates, and fees to charge for the business-type activities. One of those factors is the economy.

These and other factors are considered in preparing the Cowlitz County budget.

Requests for Information

The financial report is designed to provide a general overview of Cowlitz County’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Auditor’s Office, Cowlitz County, 207 4th Avenue No., Kelso, Wa. 98626.

Cowlitz County, Washington
Statement of Net Assets
December 31, 2011

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Three Rivers Regional Wastewater Authority</u>	<u>Public Facilities District</u>
ASSETS					
Cash, cash equivalents & pooled investments	\$ 38,442,445	\$ 19,111,673	\$ 57,554,118	\$ 3,783,481	\$ 631,326
Receivables (net)	12,853,726	1,356,502	14,210,228	83,017	81,099
Internal Balances	13,357	(13,357)	-	-	-
Inventories	677,402	2,971	680,373	301,291	-
Prepaid items	156,756	71,705	228,461	25,700	20,604
Due from component unit	16,335,000	392,736	16,727,736	-	-
Deferred charges	81,907	-	81,907	1,728,844	61,952
Restricted cash, cash equivalents & pooled investments:					
Customer deposits	71,703	54,324	126,027	-	-
Debt service	-	-	-	5,391,364	418,057
Closure and postclosure	-	13,529,359	13,529,359	-	-
<i>Capital Assets:</i>					
Nondepreciable assets	11,305,666	1,148,600	12,454,266	586,540	-
Depreciable assets (net)	41,672,686	14,166,462	55,839,148	66,852,764	16,094,566
Infrastructure (net)	90,257,462	-	90,257,462	-	-
Construction in progress	1,248,651	1,066,986	2,315,637	122,059	-
Total Assets	213,116,761	50,887,961	264,004,722	78,875,060	17,307,604
LIABILITIES					
Accounts payable & accrued exp.	3,258,909	520,304	3,779,213	522,821	73,450
Other current liabilities	2,170,489	234,458	2,404,947	87,752	-
Customer Deposits	71,703	35,172	106,875	-	-
<i>Noncurrent Liabilities:</i>					
Due within one year	2,505,675	134,752	2,640,427	2,968,513	102,983
Due primary gov. within one yr.	-	-	-	598,895	191,340
Due in more than one year	31,749,001	15,256,390	47,005,391	27,590,138	5,644,657
Due primary gov. more than one year	-	-	-	10,922,724	5,272,853
Total Liabilities	39,755,777	16,181,076	55,936,853	42,690,843	11,285,283
NET ASSETS					
Invested in capital assets, net of related debt	144,484,465	14,887,126	159,371,591	25,660,568	5,275,469
Restricted for:					
Economic environment	3,023,318	-	3,023,318	-	-
General government	734,637	-	734,637	-	-
Public safety	755,985	-	755,985	-	-
Judicial	66,503	-	66,503	-	-
Health	4,340,509	-	4,340,509	-	-
Physical environment	703,836	-	703,836	-	-
Transportation-roads	5,872,935	-	5,872,935	-	-
Culture & recreation	105,973	19,152	125,125	-	-
Restricted, for debt purposes	-	-	-	5,391,364	418,057
Unrestricted	13,272,823	19,800,607	33,073,430	5,132,285	328,795
Total Net Assets	\$ 173,360,984	\$ 34,706,885	\$ 208,067,869	\$ 36,184,217	\$ 6,022,321

The notes to the financial statements are an integral part of this statement.

Cowlitz County, Washington
Statement of Activities
For the Year Ended December 31, 2011

	Net (Expense) Revenue and Changes in Net Assets						Component Units				
	Primary Government						Three Rivers				
	Program Revenues		Operating Grants and Contributions		Capital Grants and Contributions		Governmental Activities		Business-type Activities	Regional Wastewater Authority	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total				
FUNCTIONS/PROGRAMS											
<i>Governmental Activities:</i>											
General Government	\$ 11,117,076	\$ 3,047,310	\$ 985,245	\$ -	\$ (7,074,521)	\$ -	\$ (7,074,521)				
Public Safety	21,592,210	4,930,303	1,395,587	-	(15,266,320)	-	(15,266,320)				
Judicial	5,857,861	2,657,643	164,362	-	(3,035,856)	-	(3,035,856)				
Physical Environment	714,475	269,386	157,487	155,422	(132,180)	-	(132,180)				
Transportation - Roads	15,111,924	601,055	1,540,329	1,208,073	(11,762,467)	-	(11,762,467)				
Economic Environment	3,486,399	2,253,272	126,976	-	(1,106,151)	-	(1,106,151)				
Health	14,985,584	10,649,982	3,387,971	-	(947,631)	-	(947,631)				
Culture & Recreation	1,155,935	73,316	5,263	-	(1,077,386)	-	(1,077,386)				
Interest on long-term debt	1,286,403	-	-	-	(1,286,403)	-	(1,286,403)				
Total governmental activities	75,307,867	24,482,267	7,773,220	1,363,495	(41,688,885)	-	(41,688,885)				
<i>Business-type Activities:</i>											
Water/Sewer	1,485,969	1,423,062	-	484,181	-	421,274	421,274				
Garbage & Solid Waste	4,360,568	3,885,515	96,943	-	-	(378,110)	(378,110)				
Public Safety	4,080,833	3,197,406	171,178	-	-	(712,249)	(712,249)				
Culture & Recreation	2,212,768	1,992,070	40,175	95,117	-	(85,406)	(85,406)				
Total business-type activities	12,140,138	10,498,053	308,296	579,298	-	(754,491)	(754,491)				
Total Primary Government	\$ 87,448,005	\$ 34,980,320	\$ 8,081,516	\$ 1,942,793	\$ (41,688,885)	\$ (754,491)	\$ (42,443,376)				
Component Unit											
Three Rivers Reg. Wastewater	\$ 8,498,573	\$ 8,529,837	\$ -	\$ 4,176,798				\$ 4,208,062	\$ -		
Public Facilities District	1,399,429	9,133	-	270,000						(1,120,296)	
Total Component Units	\$ 9,898,002	\$ 8,538,970	\$ -	\$ 4,446,798				\$ 4,208,062	\$ -		(1,120,296)
GENERAL REVENUES:											
Property Taxes					26,083,662		26,083,662				
Sales Taxes					6,817,357		6,817,357				
911 Taxes					-	958,402	958,402				793,958
Other Taxes					4,826,086		4,826,086				
Investment Earnings					253,198	58,711	311,909		14,140		1,825
Gain (loss) on sale of capital assets					668,563	(125,413)	543,150		(11,129)		
Miscellaneous					(192,062)	192,062	-				
Total General Revenues & Transfers					38,456,804	1,083,762	39,540,566		3,011		795,783
Change in Net Assets					(3,232,081)	329,271	(2,902,810)		4,211,073		(324,513)
Net assets - January 1					176,593,065	34,377,614	210,970,679		31,973,144		6,346,834
Net assets - December 31					\$ 173,360,984	\$ 34,706,885	\$ 208,067,869		\$ 36,184,217		\$ 6,022,321

The notes to the financial statements are an integral part of this statement.

Cowlitz County, Washington
Balance Sheet
Governmental Funds
December 31, 2011

	Major Funds							Total Governmental Funds
	General	County Road	Community Mental Health	Debt Service			Other Governmental Funds	
				2006 Spec. Sewer Rev. Bonds	Capital Improvements	Governmental Funds		
ASSETS								
<i>Current Assets:</i>								
Cash, cash equivalents & pooled investments	\$ 6,931,772	\$ 5,892,526	\$ 4,276,768	\$ -	\$ 3,581,554	\$ 6,487,509	\$ 27,170,129	
Receivables (net)	5,573,087	1,108,928	602,713	-	1,078,612	3,979,458	12,342,798	
Due from other funds	13,591	13,820	-	-	-	57,819	85,230	
Due from component unit	-	-	-	11,205,000	-	5,130,000	16,335,000	
Customer deposits & seized	36,017	-	-	-	-	35,686	71,703	
Total assets	\$ 12,554,467	\$ 7,015,274	\$ 4,879,481	\$ 11,205,000	\$ 4,660,166	\$ 15,690,472	\$ 56,004,860	
LIABILITIES								
Accounts payable	\$ 428,211	\$ 210,107	\$ 1,074,598	\$ -	\$ 283,741	\$ 54,617	\$ 2,051,274	
Payable to other governments	109,962	22,514	436,207	-	17,074	122,508	708,265	
Due to other funds	68,994	308,545	-	-	33	39,492	417,064	
Deferred revenue	4,053,524	534,245	-	-	-	698,703	5,286,472	
Other current liabilities	1,297,093	222,643	-	-	2,300	232,482	1,754,518	
Customer deposits and seized payable	36,017	-	-	-	-	35,686	71,703	
Total liabilities	\$ 5,993,801	\$ 1,298,054	\$ 1,510,805	\$ -	\$ 303,148	\$ 1,183,488	\$ 10,289,296	
FUND BALANCE								
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ 857,440	\$ -	\$ 857,440	
Restricted	-	-	3,368,676	11,205,000	969,465	11,813,302	27,356,443	
Committed	-	-	-	-	-	-	-	
Assigned	-	5,717,220	-	-	2,530,113	2,693,682	10,941,015	
Unassigned	6,560,666	-	-	-	-	-	6,560,666	
Total fund balance	\$ 6,560,666	\$ 5,717,220	\$ 3,368,676	\$ 11,205,000	\$ 4,357,018	\$ 14,506,984	\$ 45,715,564	
Total liabilities and fund balance	\$ 12,554,467	\$ 7,015,274	\$ 4,879,481	\$ 11,205,000	\$ 4,660,166	\$ 15,690,472	\$ 56,004,860	

The notes to the financial statements are an integral part of this statement.

Cowlitz County, Washington
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2011

Total fund balances as shown on the Governmental Funds Balance Sheet	\$ 45,715,564
Capital assets (net) used in governmental activities are not financial resources and therefore are not reported in the funds (amounts for internal service fund capital assets are included as part of reconciling item further down the page).	139,120,337
Internal Service Funds are used to charge the costs of services to individual funds. The assets and liabilities of internal service funds are included in governmental activities on the statement of net assets.	15,512,076
Allocation to enterprise funds share of net (income) loss of internal service funds.	(9,146)
Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the funds.	81,907
Accrued interest receivable was less than interest receivable modified accrual	327,242
Assets deferred in governmental funds until they are available for current year expenditure.	5,286,472
Inventories not recorded in governmental funds are recorded in governmental activities.	218,469
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet	<u>(32,891,937)</u>
Net assets of governmental activities	<u>\$ 173,360,984</u>

The notes to the financial statements are an integral part of this statement

Cowlitz County, Washington
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

Major Funds

	Major Funds						Total Governmental Funds
	General	County Road	Community Mental Health	Debt Svc. 2006 Special Sewer Revenue Bonds	Capital Improvements	Other Governmental Funds	
REVENUES							
Taxes	\$ 22,740,885	\$ 8,495,062	\$ -	\$ -	\$ 1,561,214	\$ 1,321,763	\$ 34,118,924
Licenses & Permits	131,193	-	-	-	-	1,242,750	1,373,943
Intergovernmental	6,380,717	4,960,949	10,865,515	-	136,215	3,433,337	25,776,733
Charges for Services	4,759,084	252,177	-	-	-	1,172,903	6,184,164
Fines & Forfeitures	1,078,216	-	-	-	-	131,669	1,209,885
Investment Earnings	152,119	7,640	6,404	-	36,196	44,637	246,996
Rents & Leases	267,618	4,031	-	-	43,532	90	315,271
Special Assessments	-	-	-	-	-	678,765	678,765
Insurance Premiums & Recoveries	1,160	68,740	-	-	-	-	69,900
Miscellaneous Revenues	148,638	51,994	-	563,281	30,158	733,403	1,527,474
Total revenues	35,659,630	13,840,593	10,871,919	563,281	1,807,315	8,759,317	71,502,055
EXPENDITURES							
<i>Current:</i>							
General Government	9,997,568	-	-	-	584,745	408,275	10,990,588
Public Safety	18,815,510	-	-	-	2,843	1,708,299	20,526,652
Judicial	5,847,476	-	-	-	-	-	5,847,476
Physical Environment	169,418	-	-	-	27,311	517,045	713,774
Economic Environment	1,129,892	-	-	-	-	2,356,749	3,486,641
Transportation	20,255	10,769,098	-	-	-	22,213	10,811,566
Health & Human Services	616,598	-	11,116,504	-	-	3,230,508	14,963,610
Culture & Recreation	597,713	-	-	-	79,800	181,993	859,506
Other	-	-	-	-	1,434,494	-	1,434,494
<i>Debt Service:</i>							
Principal	-	-	-	555,000	-	1,031,508	1,586,508
Interest	-	-	-	563,281	-	708,338	1,271,619
Other	-	-	-	-	6,854	-	6,854
Capital Outlay	44,683	2,245,407	-	-	2,269,940	-	4,560,030
Total expenditures	37,239,113	13,014,505	11,116,504	1,118,281	4,405,987	10,164,928	77,059,318
Excess (deficiency) of revenues over (under) expenditures	(1,579,483)	826,088	(244,585)	(555,000)	(2,598,672)	(1,405,611)	(5,557,263)
OTHER FINANCING SOURCES (USES)							
Transfers in	446,205	100,000	-	-	147,020	2,200,572	2,893,797
Transfers out	(2,070,603)	-	-	-	(744,450)	(519,535)	(3,334,588)
Sale of capital assets	262,240	234,372	-	-	-	5,214	501,826
Bonds issued	-	-	-	-	81,250	-	81,250
Total other financing sources (uses)	(1,362,158)	334,372	-	-	(516,180)	1,686,251	142,285
Net change in fund balance	(2,941,641)	1,160,460	(244,585)	(555,000)	(3,114,852)	280,640	(5,414,978)
Fund balances--beginning	9,502,307	4,566,760	3,613,261	11,760,000	7,471,870	14,226,344	51,130,542
Fund balances--ending	6,560,666	5,717,220	3,368,676	11,205,000	4,357,018	14,506,984	45,715,564

The notes to the financial statements are an integral part of this statement

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2011**

Net change in fund balance as shown on Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance:

Net change in fund balances-total governmental funds \$ (5,414,978)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those capital outlays that benefit the county are posted as assets and are allocated over their estimated useful lives and reported as depreciation. Also, the disposition of capital assets (net book value) are deducted from the sale of fixed assets. The amount by which capital outlays exceeded depreciation and write off of net book value of assets disposed of in current period. 84,530

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds while the repayment of the principal of the long-term debt consumes the current financial resource of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs premiums, discounts and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 1,562,258

Change in accrual interest earnings versus on modified accrual basis (18,174)

Governmental funds report revenue in current period for revenues deferred in prior periods since they were not available financing sources at the time. Government-wide statements record revenues at the time they are earned. This amount accounts for the change in deferred revenues during the year. (116,958)

Some expenses reported in the statement of activities do not require the use of current financial resources, and accordingly, are not reported as expenditures in governmental funds. This amount represents the change in accrued interest payable and accrued compensation payable for year. (192,422)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (loss) of most of these activities is reported within governmental activities. 863,663

Change in net assets-governmental activities- on the Statement of Activities \$ (3,232,081)

The notes to financial statements are an integral part of this statement

Cowlitz County, Washington
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2011

	General Fund			
	Budgeted Amounts		Variance with Final Budget - Positive (Negative)	
	Original	Final	Actual Amounts	
<i>Revenues:</i>				
Taxes	\$ 22,970,945	\$ 22,970,945	\$ 22,740,885	\$ (230,060)
Licenses & Permits	90,010	90,010	131,193	41,183
Intergovernmental	6,427,889	6,479,389	6,380,717	(98,672)
Charges for services	5,202,882	5,202,882	4,755,043	(447,839)
Fines and forfeits	1,197,660	1,197,660	1,078,216	(119,444)
Interest	190,055	189,955	151,109	(38,846)
Miscellaneous	350,143	350,143	414,587	64,444
<i>Total revenues</i>	<u>36,429,584</u>	<u>36,480,984</u>	<u>35,651,750</u>	<u>(829,234)</u>
<i>Expenditures:</i>				
General government	10,301,509	10,314,309	9,819,790	494,519
Public safety	19,468,400	19,461,400	18,564,748	896,652
Judicial	5,956,815	6,008,815	5,847,476	161,339
Physical environ. (animal cont./soil cons.)	361,879	361,879	169,418	192,461
Economic environment	1,202,801	1,202,801	1,129,892	72,909
Transportation	25,250	25,250	20,255	4,995
Mental & physical health	594,504	601,004	616,598	(15,594)
Culture & recreation	623,383	623,383	597,713	25,670
Other	-	-	-	-
Debt Service - Principal	-	-	-	-
Capital outlay	50,000	50,000	44,683	5,317
<i>Total Expenditures</i>	<u>38,584,541</u>	<u>38,648,841</u>	<u>36,810,573</u>	<u>1,838,268</u>
Excess (deficiency) of revenues over expenditures	<u>(2,154,957)</u>	<u>(2,167,857)</u>	<u>(1,158,823)</u>	<u>1,009,034</u>
<i>Other financial sources (uses):</i>				
Proceeds-sale fixed assets	225,000	225,000	262,240	37,240
Transfers in	53,054	53,054	46,000	(7,054)
Transfers (out)	(1,987,276)	(2,242,177)	(2,070,603)	171,574
<i>Total Other financial sources (uses):</i>	<u>(1,709,222)</u>	<u>(1,964,123)</u>	<u>(1,762,363)</u>	<u>201,760</u>
Net change in fund balances	(3,864,179)	(4,131,980)	(2,921,186)	1,210,794
Fund balance, January 1	7,078,683	7,078,683	8,759,346	1,680,663
Prior Period Adjustments	-	-	-	-
Fund balance, December 31	<u>\$ 3,214,504</u>	<u>\$ 2,946,703</u>	<u>5,838,160</u>	<u>\$ 2,891,457</u>
Adjustment to GAAP basis:				
GIS Fund			204,010	
Benefits Administration Fund			518,496	
Fund balance - GAAP basis			<u>\$ 6,560,666</u>	

The notes to the financial statements are an integral part of this statement

Cowlitz County, Washington
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2011

	County Road			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes	\$ 8,209,860	\$ 8,209,860	\$ 8,495,062	\$ 285,202
Licenses & Permits	-	-	-	-
Intergovernmental	6,586,600	6,586,600	4,960,949	(1,625,651)
Charges for services	159,500	159,500	252,177	92,677
Fines and forfeits	-	-	-	-
Interest	9,000	9,000	7,640	(1,360)
Miscellaneous	51,000	51,000	124,765	73,765
<i>Total revenues</i>	<u>15,015,960</u>	<u>15,015,960</u>	<u>13,840,593</u>	<u>(1,175,367)</u>
<i>Expenditures:</i>				
General government	-	-	-	-
Public safety	-	-	-	-
Judicial	-	-	-	-
Physical environ. (animal cont./soil cons.)	-	-	-	-
Economic environment	-	-	-	-
Transportation	13,375,221	13,375,221	10,769,098	2,606,123
Mental & physical health	-	-	-	-
Culture & recreation	-	-	-	-
Other	-	-	-	-
Debt Service - Principal	-	-	-	-
Capital outlay	3,569,000	3,569,000	2,245,407	1,323,593
<i>Total Expenditures</i>	<u>16,944,221</u>	<u>16,944,221</u>	<u>13,014,505</u>	<u>3,929,716</u>
Excess (deficiency) of revenues over expenditures	<u>(1,928,261)</u>	<u>(1,928,261)</u>	<u>826,088</u>	<u>2,754,349</u>
<i>Other financial sources (uses):</i>				
Proceeds-sale fixed assets	591,350	591,350	234,372	(356,978)
Transfers in	74,000	74,000	100,000	26,000
Transfers (out)	(46,728)	(46,728)	-	46,728
<i>Total Other financial sources (uses):</i>	<u>618,622</u>	<u>618,622</u>	<u>334,372</u>	<u>(284,250)</u>
Net change in fund balances	(1,309,639)	(1,309,639)	1,160,460	2,470,099
Fund balance, January 1	4,300,000	4,300,000	4,556,760	256,760
Prior Period Adjustments	-	-	-	-
Fund balance, December 31	<u>\$ 2,990,361</u>	<u>\$ 2,990,361</u>	<u>\$ 5,717,220</u>	<u>\$ 2,726,859</u>
Adjustment to GAAP basis:				
GIS Fund				
Benefits Administration Fund				
Fund balance - GAAP basis				

The notes to the financial statements are an integral part of this statement

Cowlitz County, Washington
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2011

	Community Mental Health			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses & Permits	-	-	-	-
Intergovernmental	10,928,561	10,928,561	10,865,515	(63,046)
Charges for services	-	-	-	-
Fines and forfeits	-	-	-	-
Interest	31,200	31,200	6,404	(24,796)
Miscellaneous	1,000	1,000	-	(1,000)
<i>Total revenues</i>	<u>10,960,761</u>	<u>10,960,761</u>	<u>10,871,919</u>	<u>(88,842)</u>
<i>Expenditures:</i>				
General government	-	-	-	-
Public safety	-	-	-	-
Judicial	-	-	-	-
Physical environ. (animal cont./soil cons.)	-	-	-	-
Economic environment	-	-	-	-
Transportation	-	-	-	-
Mental & physical health	11,024,092	11,474,092	11,116,504	357,588
Culture & recreation	-	-	-	-
Other	-	-	-	-
Debt Service - Principal	500	500	-	500
Capital outlay	-	-	-	-
<i>Total Expenditures</i>	<u>11,024,592</u>	<u>11,474,592</u>	<u>11,116,504</u>	<u>358,088</u>
Excess (deficiency) of revenues over expenditures	<u>(63,831)</u>	<u>(513,831)</u>	<u>(244,585)</u>	<u>269,246</u>
<i>Other financial sources (uses):</i>				
Proceeds-sale fixed assets	-	-	-	-
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
<i>Total Other financial sources (uses):</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(63,831)	(513,831)	(244,585)	269,246
Fund balance, January 1	1,806,038	1,806,038	3,613,261	1,807,223
Prior Period Adjustments	-	-	-	-
Fund balance, December 31	<u>\$ 1,742,207</u>	<u>\$ 1,292,207</u>	<u>\$ 3,368,676</u>	<u>\$ 2,076,469</u>
<i>Adjustment to GAAP basis:</i>				
GIS Fund				
Benefits Administration Fund				
Fund balance - GAAP basis				

The notes to the financial statements are an integral part of this statement

Cowlitz County, Washington
Statement of Fund Net Assets
Proprietary Funds
December 31, 2011

	Business-type Activities--Enterprise Funds				Governmental Activities- Internal
	Water Sewer	Solid Waste	Nonmajor Enterprise Funds	Total Enterprise Funds	
ASSETS					
<i>Current assets:</i>					
Cash, cash equivalents & pooled investments	\$ 1,294,919	\$ 15,049,924	\$ 2,766,830	\$ 19,111,673	\$ 11,272,316
Receivables (net)	156,072	897,081	303,349	1,356,502	183,686
Due from other funds	-	875	7,573	8,448	403,528
Interfund loan receivable - current	-	101,000	-	101,000	-
Inventories	-	2,971	-	2,971	458,933
Prepaid items	7,660	8,105	55,940	71,705	156,756
Customer deposits-restricted cash and cash equivalents	26,770	-	27,554	54,324	-
<i>Total Current Assets</i>	<u>1,485,421</u>	<u>16,059,956</u>	<u>3,161,246</u>	<u>20,706,623</u>	<u>12,475,219</u>
<i>Noncurrent assets:</i>					
Restricted cash, cash equivalents & investments:					
Customer deposits	-	-	-	-	-
Cash & equivalents for closure & postclosure	-	13,529,359	-	13,529,359	-
Interfund loan receivable	-	161,999	-	161,999	-
Due from component unit	-	392,736	-	392,736	-
<i>Capital assets:</i>					
Land	122,635	389,392	636,573	1,148,600	20,795
Construction in progress	188,355	878,631	-	1,066,986	3,766
Buildings and system	13,874,396	4,247,021	555,865	18,677,282	428,217
Improvements and other than bldgs.	-	8,270,344	2,237,559	10,507,903	-
Machinery and equipment	-	1,872,760	2,524,157	4,396,917	14,119,564
Intangible	23,015	25,387	1,407,212	1,455,614	1,087,512
Less accumulated depreciation	(5,451,402)	(11,209,106)	(4,210,746)	(20,871,254)	(10,295,726)
Total capital assets (net of accum depr.)	<u>8,756,999</u>	<u>4,474,429</u>	<u>3,150,620</u>	<u>16,382,048</u>	<u>5,364,128</u>
Total assets	<u>10,242,420</u>	<u>34,618,479</u>	<u>6,311,866</u>	<u>51,172,765</u>	<u>17,839,347</u>
LIABILITIES					
<i>Current liabilities:</i>					
Accounts payable	104,116	313,326	28,806	446,248	413,600
Payable to other governments	23,411	15,885	30,675	69,971	85,026
Contract retainage payable	-	-	-	-	745
Due to other funds	18,782	9,230	2,939	30,951	49,191
Accrued interest payable	4,085	-	-	4,085	-
Claims and judgements	-	-	-	-	763,091
Notes Payable	134,752	-	-	134,752	23,373
Interfund loans payable-current	-	-	101,000	101,000	-
Other current liabilities	27,685	30,855	175,918	234,458	88,729
Customer deposits payable from restricted assets	26,770	-	8,402	35,172	-
<i>Total current liabilities</i>	<u>339,601</u>	<u>369,296</u>	<u>347,740</u>	<u>1,056,637</u>	<u>1,423,755</u>
<i>Noncurrent liabilities:</i>					
Compensated absences	24,827	59,694	282,340	366,861	162,386
Landfill closure and postclosure costs	-	13,529,359	-	13,529,359	-
Claims and judgements	-	-	-	-	717,015
Interfund loan payable	-	-	161,999	161,999	-
Notes Payable	1,360,170	-	-	1,360,170	24,115
<i>Total non current liabilities</i>	<u>1,384,997</u>	<u>13,589,053</u>	<u>444,339</u>	<u>15,418,389</u>	<u>903,516</u>
Total liabilities	<u>1,724,598</u>	<u>13,958,349</u>	<u>792,079</u>	<u>16,475,026</u>	<u>2,327,271</u>
NET ASSETS					
Invested in capital assets, net of related debt	7,262,077	4,474,429	3,150,620	14,887,126	5,316,640
Restricted-donations pigeon/horse purposes	-	-	19,152	19,152	-
Unrestricted	1,255,745	16,185,701	2,350,015	19,791,461	10,195,436
Total net assets	<u>\$ 8,517,822</u>	<u>\$ 20,660,130</u>	<u>\$ 5,519,787</u>	<u>34,697,739</u>	<u>\$ 15,512,076</u>
				9,146	
				<u>\$ 34,706,885</u>	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:					
Net assets of business-type activities					

The notes to the financial statements are an integral part of this statement

Cowlitz County, Washington
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

	<u>Business-type Activities-Enterprise Funds</u>			<u>Total Enterprise Funds</u>	<u>Governmental Activities-Internal Service Funds</u>
	<u>Water Sewer</u>	<u>Solid Waste</u>	<u>Nonmajor Enterprise Funds</u>		
OPERATING REVENUES					
<i>Charges for Services:</i>					
Water - Sewer	\$ 1,374,975	\$ -	\$ -	\$ 1,374,975	\$ -
Sewer	-	-	-	-	-
Garbage & Solid Waste	-	3,880,253	-	3,880,253	-
Public Safety	-	-	3,165,930	3,165,930	-
Culture & Recreation	-	-	1,977,951	1,977,951	-
Other services	-	-	-	-	7,981,617
Grant Revenue	-	-	-	-	-
Total operating revenues	<u>1,374,975</u>	<u>3,880,253</u>	<u>5,143,881</u>	<u>10,399,109</u>	<u>7,981,617</u>
OPERATING EXPENSES					
Maintenance & operations	1,162,168	2,895,475	5,912,935	9,970,578	6,676,682
Closure & postclosure care	-	811,525	-	811,525	-
Depreciation	322,148	659,303	388,572	1,370,023	911,030
Total operating expenses	<u>1,484,316</u>	<u>4,366,303</u>	<u>6,301,507</u>	<u>12,152,126</u>	<u>7,587,712</u>
Operating income (loss)	<u>(109,341)</u>	<u>(486,050)</u>	<u>(1,157,626)</u>	<u>(1,753,017)</u>	<u>393,905</u>
NONOPERATING REVENUES (EXPENSES)					
Taxes	-	-	958,402	958,402	-
Intergovernmental	-	96,943	211,353	308,296	36,554
Investment earnings	1,523	53,315	3,873	58,711	15,168
Interest expense	(12,435)	-	(669)	(13,104)	(3,894)
Gain (loss) on disposition of assets	(125,413)	-	-	(125,413)	96,836
Miscellaneous nonoperating revenues	48,087	5,262	45,595	98,944	68,334
Total nonoperating income (expense)	<u>(88,238)</u>	<u>155,520</u>	<u>1,218,554</u>	<u>1,285,836</u>	<u>212,998</u>
Income before contributions and transfers	<u>(197,579)</u>	<u>(330,530)</u>	<u>60,928</u>	<u>(467,181)</u>	<u>606,903</u>
Capital grants	369,326	-	-	369,326	-
Capital contributions	114,855	-	95,117	209,972	33,121
Transfers in	-	-	192,062	192,062	248,729
(Transfers out)	-	-	-	-	-
Change in net assets	<u>286,602</u>	<u>(330,530)</u>	<u>348,107</u>	<u>304,179</u>	<u>888,753</u>
Net assets--beginning	<u>8,231,220</u>	<u>20,990,660</u>	<u>5,171,680</u>	<u>14,623,323</u>	<u>14,623,323</u>
Prior period adjustment	-	-	-	-	-
Net assets--ending	<u>\$ 8,517,822</u>	<u>\$ 20,660,130</u>	<u>\$ 5,519,787</u>	<u>\$ 15,512,076</u>	<u>\$ 15,512,076</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				25,092	
Change in net assets of business-type activities				<u>\$ 329,271</u>	

The notes to the financial statements are an integral part of this statement.

Cowlitz County, Washington
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Business-type Activities-Enterprise Funds			Governmental
	Water Sewer	Solid Waste	Nonmajor Enterprise Funds	Activities- Internal Service Funds
\$	1,351,842	\$ 3,896,840	\$ 5,207,337	\$ 10,456,019
Cash received from customers	(725,174)	(2,293,450)	(2,682,688)	(5,701,312)
Cash payments for goods and services	(498,850)	(682,723)	(3,254,562)	(4,436,135)
Cash payments to employees for services	397,388	104,006	44,921	546,315
Miscellaneous revenue	525,206	1,024,673	(684,992)	864,887
<i>Net cash provided (used) by operating activities</i>				1,817,508

Cash flows from noncapital financing activities

Loans made to other governments	-	(300,000)	-	(300,000)
State fair funds received	-	-	40,175	40,175
Repayment (pmt) of interfund loan principal	-	101,331	-	101,331
Repayment of loan made to component unit	-	2,944,525	-	2,944,525
Operating grants received	-	-	203,843	203,843
Receipts from 911 tax	-	-	782,846	782,846
Payments of claims liability recognized prior yrs.	-	-	-	(140,649)
Transfers in from other County fund	-	-	192,062	192,062
Transfers out to other County fund	-	-	-	10,178
<i>Net cash provided by noncapital financing activities</i>	-	2,745,856	1,218,926	3,964,782

Cash flows from capital and related financing activities

System development fees & hookup fees	35,964	-	-	35,964
Payment on interfund loan	-	-	(101,331)	(101,331)
Acquisition and construction of capital assets	(653,989)	(841,736)	(46,418)	(1,542,143)
Proceeds from capital grants	369,326	-	-	369,326
Principal paid on note/lease	(134,751)	-	-	(134,751)
Proceeds from loans	149,929	-	-	149,929
Interest paid on capital debt	(12,785)	-	(669)	(3,894)
Proceeds from sale of capital assets	-	-	-	102,151
<i>Net cash provided (used) for capital and related financing activities</i>	(246,306)	(841,736)	(148,418)	(1,236,460)

Cash flows from investing activities

Interest on investments	1,669	59,855	4,276	65,800
<i>Net cash provided (used) by investment activities</i>	1,669	59,855	4,276	65,800
Net increase (decrease) in cash and cash equivalents	280,569	2,988,648	389,792	3,659,009
				886,493

Business-type Activities-Enterprise Funds				Governmental Activities-	
Water Sewer	Solid Waste	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds	Funds
1,041,120	25,590,635	2,404,592	29,036,347	10,385,823	
\$ 1,321,689	\$ 28,579,283	\$ 2,794,384	\$ 32,695,356	\$ 11,272,316	
\$ (109,341)	\$ (486,050)	\$ (1,157,626)	\$ (1,753,017)	\$ 393,905	
322,148	659,303	388,572	1,370,023	911,030	
(25,713)	16,587	65,738	56,612	31,297	
3,123	(462)	392	3,053	(12,967)	
346,178	2,263	-	348,441	(97,823)	
-	(869)	-	(869)	90,645	
(640)	635	(9,406)	(9,411)	(33,770)	
(56,878)	(71,699)	(42,830)	(171,407)	309,930	
(4,338)	(8,765)	27,921	14,818	13,575	
2,580	-	(3,348)	(768)	-	
48,087	811,525	-	811,525	143,352	
634,547	102,205	45,595	195,887	68,334	
525,206	1,510,723	472,634	2,617,904	1,423,603	
\$ 1,024,673	\$ (684,992)	\$ 864,887	\$ 1,817,508		

Cash and cash equivalents, January 1 (including \$24,190, \$12,717,834 and \$30,865 for the Water Sewer, Solid Waste and Nonmajor Enterprise funds, respectively, reported in restricted accounts)

Cash and cash equivalents, December 31 (including \$26,770, \$12,968,982 and \$27,554 for the Water Sewer, Solid Waste funds and Nonmajor Enterprise funds, respectively, reported in restricted accounts)

Reconciliation of operating income to net cash provided (used) by operating activities

Operating income (loss)	\$ (109,341)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	322,148
(Increase) decrease in accounts receivable	(25,713)
(Increase) decrease in due from other funds	3,123
(Increase) decrease in due from other governments	346,178
(Increase) decrease in inventory	-
(Increase) decrease in prepaid expense	(640)
Increase (decrease) in accounts payable and other accrued liabilities	(56,878)
Increase (decrease) in employee leave benefits	(4,338)
Increase (decrease) in customer deposits	2,580
Increase (decrease) in estimated future claims payable	48,087
Miscellaneous revenue	634,547
Total adjustments	1,510,723
Net cash provided by operating activities	\$ 1,024,673

Noncash Investing, Capital and Financing Activities

Contribution of infrastructure asset from Developer	78,891	-	-
Contributions from other funds			
Purchase of capital asset with lease			

The notes to financial statements are an integral part of this statement

Cowlitz County, Washington
Statement of Fiduciary Net Assets
December 31, 2011

Assets	<u>Agency Funds</u>
Cash, cash equivalents & pooled & pooled investments	\$ 129,122,986
Deposits with fiscal agent	-
Investment Trust Fund	5,540,076
Taxes Receivable	71,332
Assessments receivable, current	<u>134,734,394</u>
Total assets	<u><u>\$ 134,734,394</u></u>
Liabilities	
Due to other governments	\$ 125,791,177
Warrants payable	8,943,217
Total liabilities	<u><u>\$ 134,734,394</u></u>

The notes to the financial statements are an integral part of this statement.

COWLITZ COUNTY: DECEMBER, 31, 2011
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Cowlitz County conform with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The significant accounting policies are described below.

A. REPORTING ENTITY

Cowlitz County was incorporated on April 21, 1854. It operates under State of Washington laws applicable to second-class counties with a commissioner form of government.

Cowlitz County provides public safety, judicial services, roads, health and social services, parks, and general administrative services. It operates and owns water, sewer and solid waste facilities.

The county's combined financial statements include the assets and liabilities of all funds for which the county has a custodial or trust responsibility. The county has two discretely presented component units.

Discretely presented component units: The **Three Rivers Regional Wastewater Authority (TRRWA)** consisting of the City of Kelso, City of Longview, Beacon Hill Sewer District and Cowlitz County govern the wastewater utility. It is legally separate from Cowlitz County and is presented in a separate column on the government-wide financial statements. However; it is fiscally dependent on the County in that the County issues bonded debt on its behalf. Separate financial statements for the component unit may be obtained from Cowlitz County at 207 Fourth Avenue North, Kelso, Washington 98626. Because Cowlitz County has issued material bond debt under the Cowlitz County's name for the Three Rivers Regional Wastewater Authority and occupies one of the four board positions it is presented as a discretely presented component unit of the County.

The **Public Facilities District** is a five-member board appointed by the Cowlitz County Commissioners. The members are volunteers and serve a four-year term. The district was formed in 1999 to plan, construct and design a regional conference/special events center. Because the County has issued significant debt and appoints board members, the Public Facility District is presented as a discretely presented component unit of the County. Separate financial statements are available from Cowlitz County Auditor's Office at 207 Fourth Avenue North, Kelso, Washington 98626.

B. GOVERNMENT-WIDE

Government wide financial statements consist of the statement of net assets and the statement of activities. These statements report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit. The government-wide focus is on the county as a whole.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. The fiduciary funds are excluded from the government-wide financial statements. Major individual governmental and major individual enterprise funds are reported in separate columns on the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements of provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period except 60 days for property taxes. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues susceptible to accrual are interest earnings, and sales tax. Intergovernmental revenues such as grants are recognized as revenues when grant expenditures are incurred and grant requirements have been met. All other items are considered to be measurable and available only when the County receives cash.

Cowlitz County reports the following major governmental funds:

- *General Fund* is the County's primary operating fund. It accounts for all financial resources of the general government, except the other funds required to be accounted for and reported separately.
- *County Road Fund* accounts for the restricted resources accumulated for the design, construction and maintenance of county roads and bridges.
- *Community Mental Health Fund* accounts for state and federal restricted grant monies received by the county that is disbursed to various local agencies for services to the community involving community mental health, substance abuse, and developmental disabilities.
- *2006 Debt Service Fund* accounts for resources accumulated and payments made for principal and interest on the 2006 Special Sewer Revenue Bonds. Three Rivers Regional Wastewater Authority (TRRWA) has agreed to pay the debt on this issue which has annual principal payments beginning in 2007 through 2025.

- *Capital Improvements Fund* accounts for funds used to finance major county projects, such as land acquisition, capital construction and equipment except those paid from proprietary funds.

Cowlitz County reports the following major proprietary funds:

- *Water Sewer Fund* accounts for water and sewer services to county customers.
- *Solid Waste Fund* accounts for operations of the solid waste landfill site and the maintenance of the closed portion of landfill.

Additionally, Cowlitz County reports the following fund types:

- *Special revenue funds* are governmental funds that account for and report specific revenue sources that are legally restricted or committed to expenditures for specific purposes other than debt service or capital projects.
- *Debt service funds* account for and report restricted, committed or assigned resources accumulated for principal and interest on long-term general obligation debt of governmental funds.
- *Internal service funds* account for: data processing, fleet equipment of the county, elections, and self-insurance for liability, workers industrial accident compensation, and unemployment. Also, purchasing of telephone, postage and some printing services including the supplying of paper to the departments.
- *Agency funds* are used to account for monies held by Cowlitz County in a custodial capacity for independent districts that are required by state statute to process all monies with the county treasurer who serves as a public depository.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are payments for water, sewer, garbage, law enforcement records and 911 communications. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water sewer, solid waste, law enforcement records, 911 communications and emergency management are charges to customers for services. Operating expenses for enterprise funds and internal service funds include the cost of personal services, supplies, contractual services and other expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. ASSETS, LIABILITIES, AND NET ASSETS OR FUND BALANCE

1. Cash and Cash Equivalents and Pooled Investments

The county's cash and cash equivalents for proprietary and governmental funds are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statute authorizes the county to invest in obligations of the U.S. Treasury, U.S. Agencies, the State Treasurer's Investment Pool, and public funds investment pools. Investments for the county, as well as for its component units, are reported at fair value.

2. Receivables and payables

Taxes receivable consist of property taxes and related interest and penalties. See (Note 4 b Property Taxes)

Accrued interest consists of amounts earned on investments and notes.

Special Assessments are recorded when levied. The special assessments owed to Cowlitz County for the 1999 debt service bonds fund, a non-major fund, as of December 31, 2011 is \$675,158. The County has no delinquent special assessments at December 31, 2011.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Customer accounts receivable consist of amounts owing from private individuals or companies for goods and services including amounts owed for which billings have not been prepared.

3. Inventories and prepaid items.

Inventories in proprietary funds are valued using the first in first out method (FIFO), which approximates the market value. The cost of governmental fund type inventories unless significant are recorded as expenditures when purchased.

Payment for insurance and similar services extending to future accounting periods are recorded in proprietary funds as prepaid items and as expenditures in governmental type funds.

4. Restricted net assets

- a) for economic environment totals \$3,023,318 consisting of \$509,752 for building and planning; \$207,308 is restricted for emergency financial assistance to veterans and their surviving spouses; \$23,343 for victim witness; \$1,527,619 is restricted per RCW 36.22.178 for housing projects or units with housing projects for low income, operating costs for emergency shelters and rental assistance; and \$755,296 provided from state sales tax to be used for public facilities as defined by state law codified in RCW 82.14.370, which facilitates the creation or retention of businesses and job in the County.
- b) for general government \$734,637 consisting of \$138,436 Treasurer’s Operation and Maintenance; \$407,566 Auditor’s Operation and Maintenance; \$33,011 for cumulative reserve; and \$155,624 for REET technology.
- c) for transportation \$5,872,935 consisting of Road Fund net assets of \$5,717,220 and Paths & Trails Fund net assets of \$155,715.
- d) for health \$4,340,509 consisting of \$3,368,676 in Community Mental Health Fund net assets, \$498,886 of net assets for public health purposes and \$472,947 in net assets of the Human Services Fund for the administrative services for mental health, drug abuse, alcoholism and developmental disabilities.
- e) for culture and recreation \$105,973 which is restricted for promotion of tourism.

- f) for public safety \$755,985 consisting of \$58,742 for boat safety purposes; \$318,398 for law and justice funding and the balance is to eradicate drug trafficking.
- g) for judicial \$66,503 for superior court law library.
- h) for physical environment \$703,836 consisting of \$377,794 for storm water, \$267,497 noxious weed programs and \$58,545 for capital improvement programs.

5. Capital Assets

Capital assets include land, land improvements, buildings, building improvements, vehicles, and equipment. Vehicles and equipment are capitalized if the individual cost is \$5,000 or more and estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Improvements to capital assets that materially add to the value or extend the life of the asset are capitalized. Other normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business type activities is included as part of the capitalized value of the assets constructed. Construction in progress is transferred to the appropriate capital asset category when the project is substantially complete and in use.

Building, equipment and improvements are depreciated using the straight-line method. Estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 60 years
Building Improvements	10 - 30 years
Light Vehicles	4 - 7 years
Heavy Duty Vehicles	7 - 15 years
Office equipment	5 - 10 years
Infrastructure	15-70 years

6. Compensated Absences

County employees may accumulate up to 248 hours of vacation pay. Accumulated unpaid employee vacation pay is payable upon resignation, termination, retirement or death. Sick Leave may accumulate up to 1,200 hours. Fifty percent of accumulated sick leave is payable upon resignation, termination, death or retirement up to a maximum of 360 hours.

Sick leave to the extent it results in termination payments, and unused vacation as of year-end, are reported along with related benefits such as social security, Medicare and pension payments where applicable in the proprietary funds and in the government wide financial statements.

7. Long-term Obligations

Revenue bonds and other long-term liabilities directly related to and financed from proprietary funds are accounted for in the respective proprietary funds. All other long-term debt of the County is reported in the governmental column of the government –wide statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from debt proceeds received, are reported as debt service expenditures.

8. Fund Balance Classification

During 2011 the County implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This has changed how the governmental fund balances are displayed on the financial statements.

The County fund balances are classified into five categories in accordance with Statement 54 from the Governmental Accounting Standards Board: nonspendable, restricted, committed, assigned, and unassigned. Committed, assigned, and unassigned categories are considered to be “unrestricted.”

When expenditures are incurred that could be paid from either restricted, committed, assigned, or unassigned resources, the county uses restricted resources first, committed resources second, assigned resources third, and unassigned resources last.

The fund balance is committed when the Board of County Commissioners commits a revenue source to a specific purpose by formal resolution. The fund balance is assigned when the Board of County Commissioners or an official designated for that purpose, approve in writing, other than formal resolution, an intended use for a revenue source. The approved budget does not create committed or assigned amounts.

The County considers revenue for special revenue funds, debt service funds and the capital improvement fund to be assigned if not already nonspendable, restricted or committed.

9. Minimum Fund Balance Policy

The County shall strive to maintain a General Fund balance of no less than 8.3% of projected revenues in order to provide sufficient cash flow.

10. Detailed Fund Balance Constraints

Fund Balances:	General	County Road	Community Mental Health	Debt Service 2006 Sewer Rev. Bonds	Capital Improve-ments	Nonmajor Governmental Funds	Total
Nonspendable for:							
Long Term Receivable	\$ -	\$ -	\$ -	\$ -	\$ 857,440	\$ -	\$ 857,440
Restricted for:							
Mental & Physical Health	-	-	3,368,676	-	-	-	3,368,676
Debt Service	-	-	-	11,205,000	-	8,958,649	20,163,649
REET Technology	-	-	-	-	155,624	-	155,624
Physical Environment	-	-	-	-	58,545	-	58,545
Economic Environment	-	-	-	-	755,296	1,634,129	2,389,425
Transportation	-	-	-	-	-	155,715	155,715
Culture & Recreation	-	-	-	-	-	54,463	54,463
Judicial	-	-	-	-	-	66,503	66,503
Treasurer's O&M	-	-	-	-	-	138,436	138,436
Auditor's O&M	-	-	-	-	-	407,566	407,566
Public Safety	-	-	-	-	-	123,795	123,795
Utilities & Environment	-	-	-	-	-	274,046	274,046
Assigned to:							
Transportation	-	5,717,220	-	-	-	-	5,717,220
Capital Improvements	-	-	-	-	2,530,113	-	2,530,113
Utilities & Environment	-	-	-	-	-	371,245	371,245
Economic Environment	-	-	-	-	-	610,550	610,550
Culture & Recreation	-	-	-	-	-	84,521	84,521
Mental & Physical Health	-	-	-	-	-	971,833	971,833
P.A. Victim-Witness	-	-	-	-	-	23,343	23,343
Public Safety	-	-	-	-	-	632,190	632,190
Unassigned	6,560,666	-	-	-	-	-	6,560,666
	<u>\$ 6,560,666</u>	<u>\$ 5,717,220</u>	<u>\$ 3,368,676</u>	<u>\$ 11,205,000</u>	<u>\$ 4,357,018</u>	<u>\$ 14,506,984</u>	<u>\$ 45,715,564</u>

NOTE 2 – RECONCILIATION OF GOVERNMENT –WIDE AND FUND FINANCIAL STATEMENTS.

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows:

Gen'l. Obligation Bonds payable	\$ 14,631,250
Special Revenue Bonds payable	11,205,000
Plus: deferred amounts for issuance/discounts	108,988
Special assessment bonds payable	1,657,682
Compensated absences	2,745,049
OPEB Liability	1,779,226
Notes Payable	437,500
Accrued interest payable	<u>327,242</u>

Net adjustment to reduce *fund balance governmental funds* to
Arrive at *net assets-governmental activities*

\$ 32,891,937

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net *changes in fund balances-total governmental funds* and *changes in net*

assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

The details of the difference are as follows:

Capital Outlays (Net of amounts transferred to Internal Svc. Funds)	\$ 4,523,454
Depreciation expense	<u>(4,438,924)</u>
Net adjustment to increase <i>net changes in fund balances- total</i>	
<i>Governmental funds</i> to arrive at <i>change governmental activities</i>	<u>\$ (84,530)</u>

Another element in the reconciliation of long-term debt (e.g. bonds) provides current financial resources to governmental funds while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when the debt is first issued, whereas these amounts are deferred and amortized on the statement of activities. The details of the difference are as follows:

Amortization of deferred charge for issuance, discount and premium	13,000
Principal receipts	81,250
Principal repayments:	
General obligation bonds	(855,000)
Special revenue bonds	(555,000)
Note Payable	(70,000)
Special assessment bonds	<u>(176,508)</u>
Net adjustments to decrease <i>fund balances-total governmental funds</i>	
To arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (1,562,258)</u>

Another element of the reconciliation states, “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Interest payable	\$ (18,174)
OPEB Expense	276,981
Inventory	(44,709)
Compensated absences	<u>(21,676)</u>
Net adjustment to decrease <i>net changes in fund balances-total</i>	
<i>Governmental funds</i> to arrive at <i>changes in net assets of governmental</i>	
<i>Activities</i>	<u>\$ 192,422</u>

NOTE 3– STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions, and expenditures have not exceeded legal appropriations in any funds of the County.

BUDGETARY INFORMATION

The annual budget for Cowlitz County is adopted in accordance with state statute, codified in Revised Code of Washington, Chapter 36.40, on a basis consistent with generally accepted accounting principles, with one exception. The County budgets the GIS Fund and Benefits Administration Fund activity as if they were special revenue funds. However, GAAP requires this activity to be reported with the General Fund, as it does not have significant streams of restricted resources. From a budgetary perspective, the County budgets activity within the GIS Fund and

Benefits Administration Fund separately from the General Fund. From a GAAP perspective, the General Fund column of the fund statements contains General Fund and GIS Fund and Benefits Administration Fund activity. The Board of County Commissioners adopts the annual budgets for the general, special revenue and capital project funds. Budgetary constraints for debt services funds are determined by the terms of the debt instruments or enabling legislation.

The steps in the budgetary process are as follows:

- a. Prior to the first Tuesday in September the county auditor and budget director submit a proposed budget to the county commission. This budget is based on priorities established by the commission and estimates provided by county departments during the preceding months, and offset with revenue estimates provided by county departments during the preceding months, and offset with revenue estimates made by the county auditor and budget director.
- b. The commission conducts public hearings on the proposed budget in October, November, and December.
- c. The commission makes its adjustments to the proposed budget and adopts by resolution a final balanced budget no later than December 31.
- d. Amendments to the budget require a supplemental appropriation resolution approved by the Board of County Commissioners at a public meeting. Any revisions that alter total expenditures of a fund or that affect the number of permanent employee positions, salary ranges, hours or the county commission must approve other conditions of employment.

The Board of County Commissioners at the fund level adopts annual appropriations, except in the General Fund where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level. Also, total direct labor and benefits by department are controlled by the adopted budgetary amounts.

Budgets are amended during the year for increases or decreases to appropriations by resolutions, which are approved by a majority vote of the Commission after holding a public hearing. Budget amendments resulted in a net increase in the General Fund budgeted appropriations for expenditures by \$64,300 and transfers out to support other County funds by \$254,901. The amounts shown in the financial statements are the final authorized amounts as revised during the year. All annual appropriations lapse at fiscal year end.

e. Deficit Net Assets/Fund Balance

Industrial Accident Insurance had a deficit net asset balance of \$208,011 at December 31, 2011. The deficit is due to recognition of estimate for projected future year's pay out on the industrial accidents incurred of \$413,000. At December 31, 2011 the fund had \$108,200 in cash and investments as well as \$107,397 in current receivables to meet current payables of \$10,608.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The county deposits and certificates of deposit are entirely covered by federal depository insurance FDIC or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All of the county's investments are held in the County's name.

As of December 31, 2011, Cowlitz County had the following investments:

	Maturities- Weighted Average Days	Fair Value County Investments	Fair Value Investments held by County as agent for other local governments	Total
Wa. State Investment Pool	60	\$ 66,057,927	\$ 117,633,133	\$ 183,691,060
Total Investments		\$ 66,057,927	\$ 117,633,133	\$ 183,691,060

Internally Pooled Investments - County monies are invested by certain individual funds for the benefit of the respective fund. The remaining County monies are aggregated in a residual account, and invested in an internal pool for the benefit of the General fund.

Pooled investments, during 2011, included Certificates of Deposit, monies invested with the Washington State Local Government Investment Pool and money market accounts. The book value of the pooled investments on December 31, 2011 was \$14,027,878. All of which is classified as deposits. The interest earned on the pooled investments accrues to the County General Fund in accordance with state law.

Interest Rate Risk - The County does not have a formal written investment policy that limits the investment maturities as a mean of limiting exposure to fair value losses arising from increasing interest rates. However, the County has held investments to maturity therefore not being subject to loss due to current market values.

Credit Risk - State law limits investments to obligations of the U.S. Government, the State Treasurer's Investment Pool, bankers acceptances, deposits with Washington State banks and savings and loan institutions and certain other governmental obligations. The County's investment policy does not further limit its investment choices.

As of December 31, 2011, the county's investment in the state investment pool was not rated.

Washington State Investment Pool - The State Treasurer's Investment Pool was created by the Washington State Legislature in 1986 and is administered by the State Treasurer. Additionally, the State Finance Committee adopts and administers appropriate rules relating to the State Treasurer's Investment Pool. The State Treasurer created the Local Government Investment Pool Advisory Committee to give advice on the operation of the pool. The committee is comprised of 12 members selected from active pool participants. Washington statutes and the federal Single Audit Act of 1984 require an annual single audit of the state including the State Treasurer's Office. In addition, the pool contracts with the State Auditor's Office for an outside independent audit of the pool's financial statements.

Total Cash, Cash Equivalents and Pooled Investments - Total cash and investment fair value on December 31, 2011 of \$210,556,718.

A reconciliation of cash, cash equivalents and pooled investments and investments as shown on the fund statements is as follows:

Checking Accounts	\$ 17,344,024
Petty Cash	79,040
Deposits Held in Trust	322,326
Certificate of Deposits (classified as deposits)	7,033,526
State Investment Pool (classified as deposits)	183,691,060
Money Market (Pooled investments classified as deposits)	2,086,742
	<u>\$ 210,556,718</u>
Cash, cash equivalents, pooled investments	\$ 57,554,118
Cash, cash equivalents, pooled investments - restricted	13,655,386
Cash, cash equivalents, pooled investments - component units	4,414,807
Cash, cash equivalents, pooled investments - component units - restricted	5,809,421
Cash, cash equivalents, pooled investments - fiduciary	129,122,986
	<u>\$ 210,556,718</u>

B. PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties
February 14	Tax bills are mailed
April 30	First of two equal installments is due
May 31	Assessed value of property established for next year's levy at 100 percent of market value
October 31	Second installment is due.

Property taxes are recorded as a receivable in the year when levied. Property taxes collected in advance are recorded as deferred revenue and recognized in the period to which they apply. The county may levy up to \$1.80 per \$1,000 of assessed valuation for general government services and \$2.25 per \$1,000 for roads. However, any county is authorized to increase its general levy from \$1.80 to \$2.475 per \$1,000 of assessed valuation if the total levies for both the general and road district levies do not exceed \$4.05 per \$1,000 of assessed valuation. Levies are subject to the following limitations.

- a. Washington State law in RCW 84.55.0101 limits the growth of regular property taxes to 1 percent per year of the amount of regular property taxes lawfully levied for such district. (On June 13, 2006 the King County Superior Court declared Initiative 747 limiting the growth in property taxes to 1 percent unconstitutional. It has been appealed to Washington State Supreme Court).
- b. The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, junior taxing districts' levies are reduced by order of seniority, beginning with cemetery districts.

The county assessed valuation, levy and taxes for 2011 were:

<u>Purpose</u>	<u>Assessed Valuation</u>	<u>2011 Levy Rate Per \$1,000</u>	<u>Property Taxes 2011</u>
General Fund	\$ 9,299,798,791	\$1.694	\$ 15,757,998
Human Svcs/Mental Hlth	\$ 9,299,798,791	\$0.025	\$ 232,495
Veterans Relief	\$ 9,299,798,791	\$0.011	\$ 102,298
County Roads	\$ 4,928,621,310	\$1.759	\$ 8,670,288

Maximum Levy subject to limitations mentioned in a and b above.

In 2011 the General Fund for law enforcement purposes as permitted by state law codified in RCW 36.33.220 used \$634,082 of the road taxes. Special levies approved by the voters are not subject to the limitations listed above.

C. RECEIVABLES

Receivables as of year-end including "Due From Component Unit" for the government's individual major funds and non-major, internal service, and fiduciary funds in the aggregate, including the applicable allowances for non-collectible accounts; and excluding interfund receivables, are as follows:

<u>Funds</u>	<u>Taxes</u>	<u>Accounts</u>	<u>Special Assmnts</u>	<u>Due From Other Govts.</u>	<u>Interest & Penalties</u>	<u>Due From Component Unit</u>	<u>Total</u>
General	\$ 1,150,181	\$ 1,434,262		\$ 1,502,560	\$ 1,486,083		\$ 5,573,086
County Road	534,245	8,577		566,107			1,108,929
Community Mental Health				602,713			602,713
2006 Sp.Rev Bond						11,205,000	11,205,000
Capital Improvements				1,078,612			1,078,612
Non-major govt.	23,545	12,875	675,158	3,267,880		5,130,000	9,109,458
Internal Service Funds		2,681		181,005			183,686
Water/Sewer		146,058		10,014			156,072
Solid Waste		440,887		456,195		392,736	1,289,818
Nonmajor-business		86,594		216,756		-	303,350
Non-major-Exposition Center							-
Fiduciary	5,540,076		71,332				5,611,408
Total Receivables	\$ 7,248,047	\$ 2,131,934	\$ 746,490	\$ 7,881,842	\$ 1,486,083	\$ 16,727,736	\$ 36,222,132

The due from other government's column includes intergovernmental loans, and notes receivable owed to the Capital Improvements Fund (rural county public facilities department) of \$857,440 at December 31, 2011. These notes receivable are long-term and consist of the following:

Capital Improvement Fund - Notes Receivable

	<u>Int. rate</u>	<u>Qtrly Pmts</u>	<u>Final Pmt.</u>	<u>12/31/2011 Balance</u>
Port of Woodland	3.20%	\$ 6,250.50	3/31/2026	\$307,056
Port of Woodland	4.00%	5,916.21	3/31/2022	191,423
Port of Longview	3.00%	22,954.79	7/1/2024	243,434
City of Kalama	1.00%	7,602.15	1/31/2031	74,900
City of Castle Rock	1.00%	5,309.60	1/31/2019	40,627
Total Notes Receivable				\$857,440

The Due from component units represents receivable for bond issued by Cowlitz County that Three Rivers Regional Wastewater and the Public Facilities District received the proceeds on and have agreed to pay the principal and interest on the debt service as it becomes due.

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also, defer revenue recognition in connection with resources that have been received, but not yet earned. At year-end, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (General Fund)	\$ 1,150,181	
Interest & penalty on taxes receivable (Gen. Fund)	1,486,083	
Court Receivables (Gen Fund)	1,417,260	
Property taxes receivable (Road Fund)	534,245	
Non major governmental funds		
Special Assessments receivable	675,158	
Property taxes receivable	23,545	

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Land	\$ 11,179,750	\$ 125,916	\$ -	\$ 11,305,666
Construction in progress	970,698	3,788,260	3,510,307	1,248,651
Total capital assets, not being depreciated	<u>12,150,448</u>	<u>3,914,176</u>	<u>3,510,307</u>	<u>12,554,317</u>
Capital Assets, being depreciated				
Buildings	46,711,886	1,906,942	29,725	48,589,103
Improvements other than buildings	6,752,447	69,060	5,380	6,816,127
Machinery and equipment	15,847,169	1,803,058	464,695	17,185,532
Intangible	1,087,512	-		1,087,512
Infrastructure	131,074,924	1,591,929	192	132,666,661
Total capital assets being depreciated	<u>201,473,938</u>	<u>5,370,989</u>	<u>499,992</u>	<u>206,344,935</u>
Less accumulated depreciation for:				
Buildings	15,618,428	1,132,326	24,149	16,726,605
Improvements other than buildings	3,174,305	215,984	3,228	3,387,061
Machinery and equipment	10,269,559	1,052,726	446,994	10,875,291
Intangible	1,003,033	13,598		1,016,631
Infrastructure	39,444,765	2,964,434	-	42,409,199
Total accumulated depreciation	<u>69,510,090</u>	<u>5,379,068</u>	<u>474,371</u>	<u>74,414,787</u>
Total capital assets being depreciated, net	<u>131,963,848</u>	<u>(8,079)</u>	<u>25,621</u>	<u>131,930,148</u>
Governmental capital assets, net	<u>\$ 144,114,296</u>	<u>\$ 3,906,097</u>	<u>\$ 3,535,928</u>	<u>\$ 144,484,465</u>

Business-type activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 1,148,600			\$ 1,148,600
Construction in progress	1,829,669	\$ 1,532,906	\$ 2,295,592	1,066,983
Total capital assets , not being depreciated	<u>2,978,269</u>	<u>1,532,906</u>	<u>2,295,592</u>	<u>2,215,583</u>
Capital assets, being depreciated:				
Buildings and system	16,769,302	2,256,631	348,649	18,677,284
Improvements other than building	10,390,052	117,851		10,507,903
Machinery and equipment	4,587,929	46,418	237,430	4,396,917
Intangible	1,455,614	-	-	1,455,614
Total capital assets, being depreciated	<u>33,202,897</u>	<u>2,420,900</u>	<u>586,079</u>	<u>35,037,718</u>
Less accumulated depreciation for:				
Buildings and system	9,220,680	428,629	265,904	9,383,405
Improvements other than buildings	6,986,388	597,639	-	7,584,027
Machinery and equipment	2,322,342	335,749	193,431	2,464,660
Intangible	1,432,487	6,674		1,439,161
Total accumulated depreciation	<u>19,961,897</u>	<u>1,368,691</u>	<u>459,335</u>	<u>20,871,253</u>
Total capital assets, being depreciated, net	<u>13,241,000</u>	<u>1,052,209</u>	<u>126,744</u>	<u>14,166,465</u>
Business-type activities capital assets,net	<u>\$ 16,219,269</u>	<u>\$ 2,585,115</u>	<u>\$ 2,422,336</u>	<u>\$ 16,382,048</u>

Depreciation expense was charged to the functions of the primary government as follows:

Governmental activities:

General Government	\$ 159,535
Public Safety	900,841
Judicial	51,060
Transportation	3,073,049
Economic Enviroment	2,490
Health	48,452
Culture & Recreation	203,497
Capital assets held by the government's Internal Service funds are charged to the various functions based on their usage of the assets	911,030
	<u>\$ 5,349,954</u>

Business-type activities:

Water/Sewer	\$ 322,148
Solid Waste-Landfill	659,303
Public Safety	364,598
Expo Center	23,974
Total depreciation expense-business-type activities	<u>\$ 1,370,023</u>

Commitments: In 2011, a \$2.5 million contract for the purchase of a new dispatch system for 911 Communications was approved with work to start in 2012. Additionally, the County embarked on an energy upgrade project in 2012 for \$2.6 million which is projected to decrease utility costs. The Water Sewer Fund will begin work on the Toutle Sewer Pump Station Rehabilitation project in 2012 with an awarded contract amount of \$671,726.

Discretely Presented Component Unit – Three Rivers Regional Wastewater Authority

Capital asset activity for the year ended December 31, 2011 was as follows:

	1/1/11	Increases	Decreases	12/31/11
Capital Assets, not being depreciated:				
Land	\$ 586,540	\$ -	\$ -	\$ 586,540
Construction in progress	225,654	223,945	327,540	122,059
Total capital assets not being depreciated	<u>812,194</u>	<u>223,945</u>	<u>327,540</u>	<u>708,599</u>
Capital Assets, being depreciated:				
Buildings & system	94,095,538	216,415	16,717	94,295,236
Improvements other than buildings	7,297	-	-	7,297
Machinery and equipment	962,938	-	-	962,938
Total capital assets being depreciated	<u>95,065,773</u>	<u>216,415</u>	<u>16,717</u>	<u>95,265,471</u>
Less: accumulated depreciation for				
Buildings & system	(24,265,776)	(3,378,388)	(5,586)	(27,638,578)
Improvements other than buildings	(7,297)	-	-	(7,297)
Machinery and equipment	(731,413)	(35,419)	-	(766,832)
Total accumulated depreciation	<u>(25,004,486)</u>	<u>(3,413,807)</u>	<u>(5,586)</u>	<u>(28,412,707)</u>
Total capital assets, being depreciated net	<u>70,061,287</u>	<u>(3,197,392)</u>	<u>11,131</u>	<u>66,852,764</u>
Capital assets, net	<u>\$ 70,873,481</u>	<u>\$ (2,973,447)</u>	<u>\$ 338,671</u>	<u>\$ 67,561,363</u>

Commitments At December 2011, there are five construction projects in process. The costs thru December 31, 2011 were \$122,059. Accumulated costs for the individual projects are as follows: Roof replacement \$113,088, Parking Lot – Meeting Room \$5,498, Energy Project Blowers \$2,348 Parking Lot Paving \$397, and Vactor Dumping Bed Facility \$728. At the close of 2011, the remaining commitment for these projects is \$552,400. Existing funds of the utility will pay for the projects.

Discretely Presented Component Unit – Public Facilities District

Capital asset activity for the year ended December 31, 2011 was as follows:

	1/1/2011	Increases	Decreases	12/31/2011
Capital Assets being depreciated:				
Buildings	\$ 5,923,279	\$ -	\$ -	\$ 5,923,279
Leasehold improvements	11,202,440	-	35,149	11,167,291
Improvements other than buildings	566,565	-	-	566,565
Machinery and equipment	662,587	-	-	662,587
Total capital assets being depreciated	<u>18,354,871</u>	<u>-</u>	<u>35,149</u>	<u>18,319,722</u>
Less: accumulated depreciation for:				
Buildings	651,560	118,466	-	770,026
Leasehold improvements	381,901	507,605	-	889,506
Improvements other than buildings	209,601	38,110	-	247,711
Machinery and equipment	269,005	48,908	-	317,913
Total accumulated depreciation	<u>1,512,067</u>	<u>713,089</u>	<u>-</u>	<u>2,225,156</u>
Total capital assets, being depreciated net	<u>\$ 16,842,804</u>	<u>\$ (713,089)</u>	<u>\$ 35,149</u>	<u>\$ 16,094,566</u>
Total capital assets, net	<u>\$ 16,842,804</u>	<u>\$ (713,089)</u>	<u>\$ 35,149</u>	<u>\$ 16,094,566</u>

TRANSFERS, INTERFUND RECEIVABLES AND PAYABLES

Interfund transfers are funds provided to support other funds with no obligation for repayment and consisted of the following for 2011:

	Transfers Out					Total
	General Fund	Roads	Capital Improv.	Non-major Govt.	Non-major Enterprise	
Transfers in:						
General Fund	\$ 400,205	\$ -	\$ -	\$ 46,000	\$ -	\$ 446,205
Road Fund			100,000	-	-	100,000
Community Mental Hlth.	-					-
Capital Improvements	125,000			22,020	-	147,020
Nonmajor Governmental	1,151,669	-	644,450	404,453	-	2,200,572
Governmental	1,676,874	-	744,450	472,473	-	2,893,797
Nonmajor-Enterprise	145,000			47,062		192,062
Internal Service Funds	248,729					248,729
Total Transfers	\$ 2,070,603	\$ -	\$ 744,450	\$ 519,535	\$ -	\$ 3,334,588

Interfund receivables and payables consisted of the following as of December 31, 2011:

	Due From:							Total	
	General Fund	Roads	Capital Improv.	Non-major Govt.	Water Sewer	Solid Waste	Non-major Enterprise		Internal Service
Due To:									
General Fund	87	4,585	-	8,193	186	525	-	15	13,591
Road Fund	8,580			237	4,377	498	109	19	13,820
Nonmajor Governmental	16	49,458		8,346			-		57,820
Solid Waste	737	87					51	-	875
Nonmajor-Enterprise	384					388		6,801	7,573
Internal Service Funds	59,190	254,414	33	22,715	14,219	7,819	2,780	42,357	403,527
Total	68,994	308,544	33	39,491	18,782	9,230	2,940	49,192	497,206

NOTE 5-INTERGOVERNMENTAL GRANTS AND ENTITLEMENTS

The accompanying Schedules of Financial Assistance provide a listing of all federal, state, and entitlement assistance programs in which the county participates.

NOTE 6 – PENSION PLANS

Substantially all county full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial

report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

A. PUBLIC EMPLOYEES RETIREMENT SYSTEMS (PERS) Plans 1 and 2 and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and 20 university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is one percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 25, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

Judicial Benefit Multiplier

During January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier Program (JBM) enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate in JBM would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC, pay higher contributions; stop contributing to the Judicial Retirement Account (JRA); and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,889
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non-vested	<u>51,005</u>
Total	262,285

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, are as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	7.25%**	7.25%**	7.25%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for state elected officials is 10.80% for Plan 1 and 7.25% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer-State Agency*	9.75%	9.75%	9.75%**
Employer- Local Govt.	7.25%	7.25%	7.25%**
Employer-State Agency	9.76%	9.10%	7.50%***
Employee- Local Govt.	12.26%	11.60%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.16%.

**Plan 3 defined benefit portion only.

***Minimum rate.

Both county and the employees made the required contributions. The (city/county/district's) required contributions for the years ended December 31 were as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2011	\$ 48,500	\$ 1,128,898	\$ 262,726
2010	\$ 51,250	\$ 974,043	\$ 215,505
2009	\$ 94,008	\$ 1,272,637	\$ 263,358

B. LAW ENFORCEMENT OFFICERS AND FIRE FIGHTERS (LEOFF) Plans 1 and 2

Plan Description

The Legislature established LEOFF in 1970. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41. RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

<u>Term Of Service</u>	<u>Percent of Final Average</u>
20+ years	2.0%
10 but less than 20 years	1.5
5 but less than 10 years	1.0

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the FAS per year of service. (FAS is based on the highest consecutive 60 months). Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is two percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least ten percent of FAS and two percent per year of service beyond five years. The first ten percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may request service credit on behalf of the deceased member.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	9,647
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	782
Active Plan Members Vested	13,420
Active Plan Members Non-vested	<u>3,656</u>
Total	27,505

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, are as follows:

	<u>LEOFF Plan I</u>	<u>LEOFF Plan II</u>
Employer	0.16% *	5.24% **
Employee	0.00%	8.46%
State	N.A.	3.38%

* The employer rate includes .16% administrative fee.
** The employer rate for ports and universities is 8.99%.

Both the County and the employees made the required contributions. The County’s required contributions for the years ended December 31, were:

	<u>LEOFF Plan I</u>	<u>LEOFF Plan II</u>
2011	\$ 0	\$ 170,274
2010	\$ 0	\$ 161,507
2009	\$ 109	\$ 153,662

C. Public Safety Employees’ Retirement System (PSERS) Plan 2

Plan Description

The Legislature created PSERS in 2004 and the system became effective July 1, 2006. PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria. PSERS retirement benefit provisions are established in Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

A “covered employer” is one that participates in PSERS. Covered employers include the following:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Corrections departments of Washington State counties;
- Corrections departments of Washington State cities except for Seattle, Tacoma and Spokane; and
- Interlocal corrections agencies.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS Plan 2 members are vested after completing five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least ten years of PSERS service credit, with an allowance of two percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is two percent of the average final compensation (AFC) for each year of service. AFC is based on the member's 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years).

PSERS Plan 2 members can receive service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may request service credit on behalf of the deceased member.

PSERS members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	7
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	0
Active Plan Members Vested	0
Active Plan Members Non-Vested	4,210
Total	4,217

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, are as follows:

Employer*	Employee
8.86%	6.36%

* The employer rate includes an employer administrative fee of 0.16%.

The County and the employees made the required contributions. The County's required contributions were as follows:

	PSERS Plan 2
December 31, 2011	\$317,205
December 31, 2010	\$390,142
December 31, 2009	\$300,601

NOTE 7 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFIT

LEOFF I OPEB

Plan Description

The County provides all health insurance benefits for retired public safety employees who are vested in LEOFF I under a single-employer defined benefit plan. All County LEOFF I employees may become eligible for these benefits if they reach normal retirement age while working for the County.

There are 24 participants eligible to receive these benefits. There are no LEOFF I members employed at the County who have not yet retired. The benefits are 100 percent provided by the County in order to meet State statutory requirements under the LEOFF I system, whereby the County pays their medical and dental premiums and out-of-pocket medical costs for life.

The County does not issue a stand-alone financial report nor is the plan included in the report of another entity.

Funding Policy and Funding Status

The County has the authority to establish and amend contribution requirements. Plan members are not required to contribute to the plan.

This plan is not currently funded. The County was required to contribute \$527,742 but only contributed \$250,761 at December 31, 2011. The amount contributed differs from the Annual Required Contribution (ARC) because the plan is financed on a pay-as-you-go-basis. Since the County's healthcare plan is experience rated, the annual required contributions can fluctuate. The difference between the OPEB costs and the required contribution is called the Net OPEB Obligation (NOO).

As of December 31, 2010, the most recent valuation date, the liability for benefits was \$6,379,253.

The County's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for the current year and the two preceding years were as follows:

Year Ending December 31	Annual		Percentage of Annual	
	OPEB Cost	Contribution	OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 527,742	\$ 250,761	47.52%	\$ 1,779,226
2010	538,181	196,013	36.42%	1,502,245
2009	665,076	282,966	42.55%	1,160,077

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance within the parameters of GASB 45 using the alternative method. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period of thirty years. The following table shows the components of the County's annual OPEB cost for the fiscal year ending December 31, 2011, the amount actually contributed to the plans, and changes in the County's net OPEB obligation:

Annual required contribution	\$ 593,997
Interest on net OPEB obligation	67,601
Adjustments to the annual required contribution	(133,856)
Annual OPEB cost (expense)	<u>527,742</u>
Employer Contributions made	<u>250,761</u>
Increase in the net OPEB obligation	276,981
Net OPEB obligation, beginning of year	<u>1,502,245</u>
Net OPEB obligation, end of year	<u>\$ 1,779,226</u>

Methods and Assumptions

The County has used the alternative measurement method permitted under GASB Statement No. 45 to calculate the annual required contribution of the employer. The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about retirement ages, mortality and the healthcare cost trend. The actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as required supplementary information immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additionally, calculations are based on the types of benefits provided under the terms of the plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. The specific actuarial methods and significant assumptions used to determine the ARC for the current year are as follows:

Valuation Date	12/31/2010
Actuarial Cost Method	Projected Unit Credit
Method used to determine the actuarial value of assets	N/A
Interest Rate for Discounting Future Liabilities	4.50%
Projected Payroll Growth	N/A
Investment Return	N/A
Amortization Method	Level Percentage
Amortization Period - Open	15

Additionally, a single retirement age of 56.24 was assumed for all active members to determine the actuarial accrued liability. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2007. The results were based on grouped data with four active groupings and four inactive groupings. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 8 - RISK FINANCING

A. WASHINGTON COUNTIES RISK POOL

Cowlitz County was one of the twenty-seven members of the Washington Counties Risk Pool ("Pool"). Other members included: Adams, Benton, Chelan, Clallam and Clark, Columbia, Douglas and Franklin, Garfield, Grays Harbor, Island and Jefferson, Kittitas, Lewis and Mason, Okanogan, Pacific, Pend Oreille and San Juan, Skagit, Skamania, Spokane and Thurston, Walla Walla, Whatcom and Yakima Counties. Kitsap, Klickitat and Whitman Counties were former Pool members, but terminated their memberships effective September 30 2010, 2002 and 2003 respectively.

Contingent Liability: The Pool is a cooperative program with joint liability amongst its participating members. Contingent liabilities occur when assets are not sufficient to cover liabilities. Deficits resulting from any of the Pool's fiscal years are financed by proportional reassessments (aka retroactive assessments) against the particular year's membership.

The Pool's reassessments receivable balance at December 31, 2011 remains at \$0 as no contingent liabilities were known to exist at that time.

Joint Self-Insurance Liability Program: The Pool has provided its member counties occurrence-based, jointly self-insured and/or jointly purchased liability coverage for 3rd-party bodily injury, personal injury, property damage, errors and omissions, and advertising injury, including public officials' errors and omissions, since October 1, 1988. Total coverage limits have grown over time, from the \$1 million limit during the Pool's initial two months to \$5 million, then to \$10 million and onto \$15 million before reaching the \$20 million limit the past eight years. (Note: Additional limits of \$5 million were offered the past several years for acquisition as a member-by-member option.)

Except for the Pool's self insured retention (the greater of the member's deductible or \$100,000), the initial coverage of at least \$10 million has been fully reinsured since October 1994 by superior-rated commercial carriers. Members annually select a deductible amount of \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000. The remaining insurance (up to \$15 million) is acquired as "following form" excess insurance, also from superior-rated commercial carriers. There are no aggregate limits to the payments made for any one member county or all member counties combined.

The Pool's claims database increased during Py2011 with the addition of 744 new claims (and lawsuits) raising the 3rd-party liability claims to-date total submitted by member counties to 17,982. Estimates of total incurred losses (payments made plus reserved estimates for *open* claims) increased \$16.0 million during the year to \$237.4 million.

Washington Counties Property Program: Since the Pool began offering the jointly-purchased, fully-insured property insurance coverage to its membership in October 2005 as an individual county option, participation has grown by more than 50% and the total value of covered properties has nearly doubled. Twenty seven member counties with covered properties totaling \$2.6 billion participated in this program during Py2011.

Coverage is for structures, vehicles, mobile equipment, EDP equipment, etc., and composite limits include \$500 million for normal (All Other Perils) exposures and \$200 million for catastrophe (Flood / Earthquake) exposures. Occurrence deductibles, which the participating counties annually select from and which they are solely responsible for, range between \$5,000 and \$50,000 for the AOP coverage.

Superior-rated commercial insurers are responsible for covered losses exceeding the participant deductibles to the maximum limits of the policy. There were 13 property claims submitted for processing during Py2011 with incurred losses-to-date totaling nearly \$0.85 million. During its first six years being offered through the WCRP as an optional insuring program, there have been 78 property claims filed with incurred losses-to-date totaling nearly \$9.75 million. With to-date premiums for this coverage totaling \$13.75 million, the resulting to-date loss ratio is 0.71.

Other Insurances: Several member counties also use the Pool's producer (broker) for other insurance placements. Public officials bonds, or crime & fidelity, special events/concessionaires and environmental hazards insurance coverages are a few examples.

Background: The Pool was formed August 18, 1988 when several Washington counties approved an Interlocal (Cooperative) Agreement under Chapter 39.34 RCW to provide its member counties with "joint" programs and services including self-insurance, purchasing of insurance, and contracting for or hiring of personnel to provide administrative services, claims handling and risk management. The Pool operates under Washington's "pooling" laws, more specifically Chapters 48.62 RCW and 200.100 WAC. It is overseen by the State Risk Manager and subject to fiscal audits performed annually by the State Auditor.

The Pool's mission is: To provide comprehensive and economical risk coverage; to reduce the frequency and severity of losses; and to decrease costs incurred in the managing and litigation of claims. The Pool's core values include: being committed to learn, understand and respond to the member counties' insurance needs; being committed to establish working relationships with all members that identify business issues and jointly develop solutions; member counties commit to allocate necessary resources to risk management in their own operations; the Pool's board of directors and professional staff share a commitment to manage the organization based on sound business principles, benchmarked industry standards and measurable outcomes; and being committed to continuous planning and innovation in product development and service delivery.

The enabling Interlocal Agreement was amended once (in 2000) to add a Membership Compact, a commitment to strengthen the Pool by helping its member counties implement and/or enhance local risk management efforts to reduce losses and support the best management of the Pool and its resources. The intent of the Compact was to obligate member counties to support these goals through three major elements; membership involvement, risk control practices, and a targeted risk management program.

A new member may be asked to pay modest admittance fees to cover that member's share of the Pool's organizational expenses and costs to analyze its loss data and risk profile. Members contract initially to remain in the Pool for at least five years. Counties may terminate their memberships at the conclusion of any Pool fiscal year following the initial term if the county timely files its required advance written notice. Otherwise, the Interlocal Agreement is renewed automatically for another year. Even after termination, a former member remains responsible for reassessments from the Pool for its proportional shares of any unresolved, unreported, and in-process claims for the periods they were a signatory to the Interlocal Agreement.

Governance / Oversight: The Pool is governed by a board of directors consisting of one director (and at least one alternate director) appointed by each member county. The Pool's board of directors, made up of both elected and appointed county officials, meets three times each year with the summer meeting being the Pool's Annual Meeting. The board of directors is responsible for determining the 3rd-party liability coverage to be offered (approving the insuring document or coverage form), the reinsurance program(s) to acquire and the excess insurance(s) to be jointly purchased or offered for optional purchase by the member counties, for approval of the Pool's annual operating budget(s) and work program(s), and for approval of the member deposit assessment formulas applicable to the ensuing policy year.

Regular oversight of the Pool's operations is furnished by an 11-person executive committee. The committee members are elected by the Pool's board of directors from its membership to staggered, 3-year terms during each Annual Meeting. The committee meets several times throughout the year to approve all Pool disbursements and examine the Pool's financial health; to approve any case settlement exceeding the member's deductible by at least \$50,000, and to review all claims with incurred loss estimates exceeding \$100,000; to evaluate the Executive Director and the Pool's operations and program deliverables; and to participate in the board's standing committees (finance, personnel, risk management, and underwriting) for development or review/revision of the organization's policies and coverage documents.

Staffing and Support Teams: The Pool's 5-person claims staff with more than eighty years combined claims-handling experience handles or oversees the handling of the several hundred liability cases filed upon the Pool's member counties each year. This includes establishing reserves for covered events and estimating undiscounted future cash payments for losses and their related claims adjustment expenses. Other Pool staffers provide various member services, e.g. conducting risk assessments and compliance audits, coordinating numerous trainings, researching other coverages and marketing. Some address and support the organization's administrative needs.

Professionals from some of the most respected organizations worldwide are called upon regularly to address specific needs of the Pool. For example, independent actuarial services are furnished by PricewaterhouseCoopers, LLP; independent claims auditing is performed by Strategic Claims Direction with special claims audits frequently performed by the Pool's commercial reinsurers / insurers; insurance producer (broker) and advanced loss control services are provided by Arthur J. Gallagher Risk Management Services, Inc.; and coverage counsel is provided by J. William Ashbaugh of Hackett Beecher & Hart. These professionals are in addition to the many contracted and in-county attorneys assigned to defend Pool cases, as well as the examinations by and services from the State Risk Manager and the State Auditor.

Financial Summary: The following constitute the most significant highlights from the Pool's most recently completed Policy (Fiscal) Year (October 2010 through September 2011):

- *Net Operating Income* was realized of \$0.8 million, a 58% decrease from the prior year.
- *Total Assets* grew \$2.2 million (6%) to \$41.1 million. Current assets increased \$2.3 million (6%) while non-current assets decreased 4%.
- Total *Claims Reserves* for the Pool's direct reserving exposures increased to \$15.0 million, up 6.7% from the prior year. This total includes: \$5.6 million for losses in the coverage layer retained by the Pool, down 9.3%; \$8.6 million for the aggregated stop losses in the retained layers associated with the "corridor" program for automobile and general liabilities, up 22%; and \$0.8 million for unallocated loss adjustment expenses, down 5% from one year ago. *NOTE: The corridor program referenced is now five years old yet still not fully matured.*

Further, its occurrence coverage maximum was increased to one million dollars beginning with Py2010, up from the half million level that existed during the program's first three years, while the program's occurrence minimum remains the greater of the applicable member's deductible or \$100,000.

- *Net Position* (formerly referred to as *Net Assets* and also known as *Members' Equity*) increased \$.08 million to \$11.0 million as of September 30, 2011. Of the total, \$5.5 million is classified as *Restricted Net Position* — \$0.9 million to satisfy the State's solvency provisions (WAC 200.100.03001) plus \$4.6 million for the Pool's Underwriting Policy requirements. \$0.2 million is invested in a real property (fraud) recovery, and another \$1 million in *Capital Assets* (net of debt). The remaining \$4.4 million held as *Non-Restricted Net Position* is available for use as directed by the Pool's Board of Directors.

Claims and Judgments

1) The County Risk Management Fund provides monies to cover the \$100,000 deductible on general liability insurance and automobile liability. Amounts in excess are covered as described in Note 8 through the Washington Counties Risk Pool. The County based the liability on information provided in year-end information from the Insurance Risk Pool and management judgment. Total claims liability - \$1,067,106 as of December 31, 2011.

2) The Industrial Insurance Safety Fund provides payments for workers compensation. The estimated claims payable at December 31, 2011 based on information provided from State Industrial Tables - \$413,000.

B. SELF-INSURANCE

The County maintains insurance against most normal hazards. For general liability and workers compensation the County has elected to retain for losses up to \$100,000 per occurrence. General liability losses in excess of the retention are insured through the Washington Counties Risk Pool to \$500,000. The county risk manager and independent claims managers process claims. Based on the claims manager's estimates, the estimated ultimate loss report for general liability prepared by the Risk Pool and with management's judgment. Estimated Claims at December 31, 2011 were \$1,067,106 for general liability and \$413,000 for workers compensation.

The county's changes in aggregate liability were as follows:

	Risk Management	Industrial Insurance	Total
Claims Payable 12-31-09	\$ 913,894	\$ 354,000	\$ 1,267,894
Provision for 2010	191,918	196,853	388,771
Increase (Decrease) in Provision for Prior Years	(190,535)	139,950	(50,585)
Less:			
Payment of Claims in Current Year Events	4,027	64,270	68,297
Payment of Claims in Prior Year Events	28,847	31,533	60,380
Claims Payable 12-31-10	882,403	595,000	1,477,403
Provision for 2011	341,788	286,138	627,926
Increase (Decrease) in Provision for Prior Years	(90,902)	(284,898)	(375,800)
Less:			
Payment of Claims in Current Yr. Events	53,034	55,740	108,774
Payment of Claims in Prior Yr. Events	13,149	127,500	140,649
Claims Payable 12-31-11	<u>\$ 1,067,106</u>	<u>\$ 413,000</u>	<u>\$ 1,480,106</u>

Since 1988, when Cowlitz County joined the risk pool, settlements by the County have not exceeded the annual insurance coverage.

The county is required by the State to set aside, for protection of the Workers compensation fund, \$100,000. The Industrial Insurance Fund has \$108,200 at December 31, 2011 available to help meet the projected future estimate of claims to be paid out of \$413,000. This results in a December 31, 2011 negative net assets balance of \$208,011.

The Risk Management Fund has \$1,517,574 at December 31, 2011 in net cash and investments to meet actual and projected claims to be paid of \$1,067,106.

Claims settlements and loss expenses are accrued in the Risk Management Fund for the estimated settlement value of both reported and unreported claims (up to the aggregate stop-loss). This fund is responsible for collecting interfund premiums from insured funds and departments, for paying claim settlements and for purchasing certain insurance policies. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures.

Also the county self-insures the Unemployment Compensation Fund. At December 31, 2011 the fund has a net assets balance of \$114,517 compared to deficit net assets of \$19,230 at December 31, 2010.

NOTE 9 – LONG-TERM DEBT AND CAPITAL LEASES

A. LONG-TERM DEBT

Note 9 summarizes long-term debt as follows: 1) Description of primary government individual debt issues and related debt service requirements to maturity on general obligation bonds and notes 2) Debt Service Requirements to Maturity 3) Discretely Presented Component Units – Three Rivers Wastewater Authority, and Public Facilities District and their long-term debt, 4) summary of changes in long-term debt, 5) presents the County's legal debt margin, and 6) Capital lease information.

1. Description of Primary Government Individual Long-term Liabilities

<i>Bonds and Other Long Term Liabilities – Governmental Activities</i>	<i>Debt Outstanding</i>
<p>\$5,695,000 2002 Limited General Obligation Bonds issued September 10, 2002. Interest varies from 2.5% to 5.0% with annual principal installments of \$235,000 to \$435,000 through April 1, 2024. The debt is serviced from the state sales tax authorized for distressed counties. Also, the county pledged its resources to the payment of the bonds to obtain a more favorable rate of interest. And the County has purchased an insurance policy insuring the payment of principal and interest when due on the bonds. The issue provided \$2 million for a new rail line to Port of Longview; other projects were the wastewater treatment improvements to the cities of Castle Rock and Kalama, upgrade to City of Longview’s water distribution system, a commercial building for the Port of Woodland, a shipping berth and commercial building for Port of Kalama and carried out other portions of the County’s Facilities Plan.</p>	\$4,080,000
<p>\$6,565,000 2003 Limited Tax General Obligation Bonds issued July 8, 2003 to provide construction of a regional center for special events and conventions. Interest varies from 2% thought 4.35% on principal payments of \$115,000 to \$490,000 though October 1, 2027. The debt will be paid from sales and hotel taxes received by the Cowlitz County Public Facilities District, a component unit of Cowlitz County.</p>	\$5,130,000
<p>\$700,000 Public Work Building Note Payable issued on May 15, 2008 for the purchase of the new Public Works facility. Principal payments are \$17,500 quarterly. Interest is equal to the published Monthly Net Earnings Rate of the Washington State Local Government Investment Pool for the month proceeding such calendar quarter.</p>	\$437,500
<p>\$6,740,000 of the \$8,565,000 2005 Limited GO Refunding Bonds issued September 9, 2005 to refund certain of the Limited Tax General Obligation Bonds 1998 and Limited Tax General Obligation Bonds 1999 and pay the administrative costs of refunding, issuance and sale of bonds. The 2005 bonds have interest rates of 3% to 4.25% on principal installments of \$50,000 to \$855,000 through November 1, 2023. The remaining \$1,825,000 of this issue is classified as special assessment debt.</p>	\$5,340,000
<p>\$13,760,000 Special Sewer Revenue Bonds 2006 issued June 1, 2006 to provide construction improvements to the wastewater treatment plant. Interest varies from 4.25% to 5.25% with future principal payments of \$470,000 to \$1,090,000 through March 1, 2025. The debt is paid from revenues collected by the Three Rivers Regional Wastewater Authority (TRRWA), a discretely presented component unit of the County. In the event the TRRWA does not provide sufficient funds for payment of the debt Cowlitz County has pledged it full faith a credit to deposit into the bond fund.</p>	\$11,205,000
<p>\$2,500,000 2011 Limited Tax General Obligation Bond issued October 18, 2011 to provide to provide upgrades to certain heating and cooling facilities of the County and pay the administrative costs of issuing the bonds. Funds from this bond are drawn down as needed. The interest rate on the outstanding principal is 3.4% through November 30, 2016. On December 1, 2016, the bond has an interest rate of 4.55% on principal installments. Semiannual principal payments will begin December 1, 2013 through December 1, 2021.</p>	\$81,250

<i>Special Assessment Debt</i>	<i>Debt Outstanding</i>
\$172,038 Road Improvement District Special Assessment Bond issued October 23, 2009 to finance road improvement. The interest rate on the bonds is 4.5%, with the entire principal payment due on October 1, 2021. The debt is paid from assessments collected from benefitted property owners; principal payments can be made annually on October 1, without pre-payment penalty, if assessments are collected. This County is required to establish a reserve to cover defaults by property owners.	\$122,682
\$1,825,000 of the \$8,565,000 2005 Limited GO Refunding Bonds issued September 9, 2005 to refund certain of the Limited Tax General Obligation Bonds 1998 and Limited Tax General Obligation Bonds 1999 and pay the administrative costs of refunding, issuance and sale of bonds. The special assessment portion of the 2005 bonds have interest rates of 3% to 4.25% on principal installments of \$140,000 to \$230,000 through November 1, 2019. The remaining \$6,470,000 of this issue is classified as general obligation bonds.	\$1,535,000

<i>Revenue Debt – Business Type Activity</i>	<i>Debt Outstanding</i>
\$653,050 2002 Water Sewer Washington State Department of Community Development Public Works Trust Fund (PWTF) Loan. The funds were for improvements to the Toutle Wastewater Treatment Facility. Interest is 2 percent per annum through June 30, 2003, and 1% per annum thereafter with annual principal payments through June 30, 2020 of \$34,623.	\$311,603
\$1,084,158 2005 Water Sewer PWTF Loan. The funds were for improvements to the Ryderwood Water Treatment Plant. The loan has a 1% interest rate. Eighteen equal annual principal payments of \$60,231 are due beginning October 1, 2006 with final maturity October 1, 2023.	\$722,772
\$322,035 2008 Water-Sewer PWTF Loan. The funds were for County Water Systems Reservoir Coating The loan has an interest rate of .50% with annual principal payments of 16,949 through July 1, 2027. .	\$288,096
\$68,900 2008 Water-Sewer PWTF Loan. The funds were used for the Toutle Sewer Lift Station Rehabilitation. No interest is due on the loan, with annual payments of \$17,225 through July 1, 2012.	\$17,225
\$25,200 2008 Water-Sewer PWTF Loan. The funds were used for Water-Sewer Umbrella Plan. \$6,531 was returned as unspent in 2009. No interest is due on the loan, with annual payments of \$4,667.14 through July 1, 2012.	\$4,667
\$150,559 2010 Water-Sewer DOE Loan. The funds are being used for the Ryderwood Infiltration and Inflow Removal. The loan has a 1% percent interest rate. Payments are due bi-annually in the amount of \$6,344.70. The term of the loan is 20 years. As of December 31, 2011, \$150,558 has been drawn from the \$223,157 available.	\$150,559

2. DEBT SERVICE REQUIREMENTS TO MATURITY

Annual debt service requirements to maturity for **general obligation bonds** are as follows:

Governmental Activities		
Year Ending		
December 31	Principal	Interest
2012	905,000	665,396
2013	959,779	623,573
2014	999,558	577,990
2015	1,049,558	530,556
2016	1,099,558	481,980
2017-2021	5,487,797	1,604,845
2022-2026	3,875,000	468,178
2027	255,000	11,093
Total	\$ 14,631,250	\$ 4,963,611

Annual debt service requirements for notes payables are as follows:

Governmental Activities		
Year Ending		
December 31	Principal	Interest
2012	70,000	926
2013	70,000	766
2014	70,000	609
2015	70,000	451
2016	70,000	221
2016-2018	87,500	220
Total	\$ 437,500	\$ 3,193

Annual debt service requirements for **special assessments bonds** are as follows:

Special Assessment Debt		
Year Ending		
December 31	Principal	Interest
2012	160,000	88,321
2013	165,000	79,521
2014	180,000	70,446
2015	185,000	60,546
2016	195,000	50,371
2017-2021	772,682	97,166
Total	\$ 1,657,682	\$ 446,371

Annual debt service requirements for the **special sewer revenue bonds 2006**, which are paid from revenues collected by Three Rivers Regional Wastewater Authority and backed by the Counties full faith and credit, are as follows:

Special Sewer Revenue Bonds		
Year Ending		
December 31	Principal	Interest
2012	575,000	539,269
2013	605,000	514,194
2014	630,000	487,950
2015	660,000	460,538
2016	675,000	432,169
2017-2021	4,010,000	1,584,862
2022-2025	4,050,000	422,862
Total	\$ 11,205,000	\$ 4,441,844

Annual debt service requirements payable to the State for business type activities are as follows:

Water Sewer - Notes Payable - State of Washington		
<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2012	134,752	11,785
2013	120,387	12,252
2014	120,387	11,137
2015	120,387	10,023
2016	120,387	8,909
2017-2021	567,317	27,840
2022-2026	248,132	6,995
2027-2031	55,646	1,595
2032	7,527	75
	<u>\$ 1,494,922</u>	<u>\$ 90,611</u>

1/ Enterprise debts paid from Water/Sewer user fees.

3. Discretely presented component unit – Three Rivers Regional Wastewater Authority (TRRWA)

TRWWA has issued revenue bonds, government loans and notes with its primary government to finance the construction, purchase and improvement of wastewater facilities, infrastructure and equipment. Current debt obligations are as follows:

Revenue Bonds	Outstanding at 12/31/2011
<p>\$35,400,000 2002 Special Revenue Refunding Bonds- issued September 5, 2002 to pay the costs of the Central Sewer's portion of the County's outstanding Limited Tax General Obligation Bonds-1999. Interest varies from 2.5% to 5.5% on principal installments of \$1.6 million to \$2.79 million through November 1, 2019. Revenues from user fees collected by the Cities of Kelso, Longview and Beacon Hill Sewer District will service the debt on this issue. Up front money provided by the Central Sewer has paid for an insurance policy to fund the debt in case of default by the users.</p>	<p>\$ 18,665,000</p>

Notes Payable (Government Loans)	Outstanding at 12/31/2011
\$7,000,000 1999 Public Works Trust Fund Loan from State of Washington - \$6,300,000 issued August 23, 1999 and \$700,000 issued May 12, 2004 for improvements to the sewer facilities. Interest is 1% per annum with \$375,329 future annual principal payments on June 30, 2005 through June 30, 2019.	\$ 3,002,632
\$3,000,000 2001 Public Works Trust Fund Loan from State of Washington \$2,850,000 issued May 26, 2001 and \$150,000 issued May 10, 2004 for improvements to treatment plant. Interest is .05% per annum with \$158,333 future annual principal payments on June 30, 2005 through June 30 2021.	\$ 1,583,333
\$776,287 2006 City of Longview , a public works trust fund loan. September 21, 2006 TRRWA received \$750,000 and \$26,387 from the City in June 2007. Interest is .05% per annum with future annual principal payments of \$40,487 beginning June 30, 2007 through June 30, 2025.	\$ 572,001
\$6,630,750 2008 Public Works Trust Fund Loan from State of Washington by TRRWA to replace two clarifiers and associated piping. Interest is 0.5% per annum with future annual principal payments of \$331,538 beginning July 1, 2009 through July 1, 2027.	\$ 5,636,137

Due to Primary Government	Outstanding at 12/31/2011
\$13,760,000 from Cowlitz County that issued bonds on June 1, 2006 to provide construction improvements to the wastewater treatment plant. Interest varies from 4.25% to 5.25% with future principal payments of \$470,000 to \$1,090,000 beginning March 1, 2007 through March 1, 2025.	\$ 11,205,000

Annual debt service for the TRRWA is shown below:

	Bonds		Notes		Due to Primary Government	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 1,945,000	\$ 994,756	\$ 906,057	\$ 70,031	\$ 575,000	\$ 539,269
2013	2,030,000	914,525	906,057	62,614	605,000	514,194
2014	2,135,000	807,950	906,057	56,204	630,000	487,950
2015	2,250,000	690,525	906,057	49,794	660,000	460,538
2016	2,370,000	566,775	906,057	43,390	675,000	432,169
2017-2021	7,935,000	888,525	3,779,627	124,532	4,010,000	1,584,863
2022-2026	-	-	1,821,116	43,515	4,050,000	422,863
2027-2028	-	-	663,075	4,973	-	-
Total	\$ 18,665,000	\$ 4,863,056	\$ 10,794,103	\$ 455,053	\$ 11,205,000	\$ 4,441,846

Discretely Presented Component Unit – Public Facilities District

The PFD is responsible for a portion of the bonds that were issued by other governments to finance the construction and improvements to the Regional Convention Center and the Columbia Theater for the Performing Arts in the City of Longview. Additionally, the PFD is liable for operating loans used to cover tax shortfalls.

Public Facilities Dist. – Due to Primary Government (Cowlitz County)	Debt Outstanding
\$6,565,000 from Cowlitz County, that issued bonds on July 8, 2003 to provide funding for construction of a 39,000 square foot regional events conference/convention center. Sales tax revenues imposed on March 20, 2002 of .033 percent are used to repay this loan. Interest varies from 2% to 4.35% on future principal payments of \$135,000 to \$490,000 through October 1, 2027.	\$5,130,000
Up to \$810,000 from Cowlitz County Solid Waste fund to cover shortfalls in retained sales tax receipts. Loan is to be paid back when funds are not restricted for other debt, but must be repaid by July 1, 2033. No scheduled payments, but interest accrues monthly at the Washington State Local Government Investment Pool rate.	\$392,736

Public Facilities Dist. - Notes Payable due to City of Longview	Debt Outstanding
\$6,130,000 from City of Longview, that issued bonds on December 27, 2007 to provide funding for improvements to Columbia Theater for the Performing Arts in Longview received by the District January 8, 2008. Sales and use tax received under EHB2388, effective July 22, 2007 are received to repay this loan. Interest varies from 4.0 % to 5.0% with future annual principal payments of \$85,000 to \$510,000 beginning December 01, 2008 through June 01, 2032.	\$5,790,000

Annual Debt service for amounts Due to Primary Government (Cowlitz County) for the Public Facilities District follows:

Public Facilities District			
Due to Primary Government - Cowlitz County			
	Principal	Interest	Total
2012	\$ 195,000	\$ 200,393	\$ 395,393
2013	210,000	193,568	403,568
2014	225,000	186,743	411,743
2015	240,000	179,430	419,430
2016	260,000	171,330	431,330
2017-2021	1,575,000	701,800	2,276,800
2022-2026	2,170,000	342,829	2,512,829
2027	255,000	11,093	266,093
	<u>\$ 5,130,000</u>	<u>\$ 1,987,186</u>	<u>\$ 7,117,186</u>

Annual debt service requirements payable to the City of Longview are as follows:

**Public Facilities District
Due to City of Longview**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 105,000	\$ 243,825	\$ 348,825
2013	120,000	239,325	359,325
2014	130,000	234,325	364,325
2015	145,000	228,825	373,825
2016	155,000	222,050	377,050
2017-2021	1,050,000	986,400	2,036,400
2022-2026	1,470,000	733,768	2,203,768
2027-2031	2,105,000	356,145	2,461,145
2032	510,000	11,220	521,220
	<u>\$ 5,790,000</u>	<u>\$ 3,255,883</u>	<u>\$ 9,045,883</u>

The PFD's bond covenants require the district to maintain a rate stabilization fund for the regional events center, and a revenue stabilization and depreciation reserve account for the Columbia Theater Project. At December 31, 2011, these funds were as follows:

<u>Purpose</u>	<u>Amount</u>
Regional Events Center Rate Stabilization	\$ 268,233
Columbia Theater Revenue Stabilization	31,232
Columbia Theater Depreciation Reserve	118,592
	<u>\$ 418,057</u>

4. CHANGES IN LONG-TERM DEBT

Changes in Governmental Activities General Long Term Debt

	<u>Balance 1/1/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2011</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$ 15,405,000	\$ 81,250	(855,000)	\$ 14,631,250	\$ 905,000
Special Assessment Bonds with governmental commitment	1,834,190	-	(176,508)	1,657,682	160,000
Special Revenue Bonds	11,760,000	-	(555,000)	11,205,000	575,000
Less deferred amounts:					
for premium	118,199	-	(9,211)	108,988	9,211
on refunding	-	-	-	-	-
	<u>29,117,389</u>	<u>81,250</u>	<u>(1,595,719)</u>	<u>27,602,920</u>	<u>1,649,211</u>
Notes Payable	507,500	-	(70,000)	437,500	70,000
Other post employee benefits	1,502,245	527,742	(250,761)	1,779,226	-
Compensated Absences	2,766,725	2,510,757	(2,532,433)	2,745,049	-
Capital Lease - Int Svc.	69,428	-	(21,939)	47,489	23,373
Comp. Absences - Int Svc.	155,302	135,453	(128,369)	162,386	-
Claims/Judgements-Int Svc.	1,477,403	252,126	(249,423)	1,480,106	763,091
Total Gen'l Long-Term Debt	<u>\$ 35,595,992</u>	<u>\$ 3,507,328</u>	<u>\$ (4,848,644)</u>	<u>\$ 34,254,676</u>	<u>\$ 2,505,675</u>

For governmental activities, claims and judgments, other post-employment benefits, and compensated absences are generally liquidated by the general fund.

Changes in Business Type Activities Long-Term Debt

	<u>Balance</u> <u>1/1/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2011</u>	<u>Due Within</u> <u>One Year</u>
Notes Payable State of Wa.	\$ 1,479,743	\$ 149,930	\$ (134,751)	\$ 1,494,922	\$ 134,752
Compensated Absences	366,105	293,251	(292,495)	366,861	-
Landfill Closure and Postclosure Care	12,717,834	811,525	-	13,529,359	-
	<u>\$ 14,563,682</u>	<u>\$ 1,254,706</u>	<u>\$ (427,246)</u>	<u>\$ 15,391,142</u>	<u>134,752</u>

Changes in Long-Term Debt Discrete Component Unit (Three Rivers Regional Wastewater Authority)

	<u>Balance</u> <u>1/31/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2011</u>	<u>Due Within</u> <u>One Year</u>
Revenue Refunding Bonds	\$ 20,535,000	\$ -	\$ (1,870,000)	\$ 18,665,000	\$ 1,945,000
Less: deferred amounts:					
for premium	1,037,530	-	(117,457)	920,073	117,456
Total bonds payable	21,572,530	-	(1,987,457)	19,585,073	2,062,456
Notes Payable-Other Govts.	11,760,897	-	(966,794)	10,794,103	906,057
Due to Primary Government	14,704,525	-	(3,499,525)	11,205,000	575,000
Less: deferred amounts:					
for premiums	340,514	-	(23,895)	316,619	23,895
Total Due to Primary Gov't	15,045,039	-	(3,523,420)	11,521,619	598,895
Compensated Absences	150,175	29,300	-	179,475	-
Total Debt	<u>\$ 48,528,641</u>	<u>\$ 29,300</u>	<u>\$ (6,477,671)</u>	<u>\$ 42,080,270</u>	<u>\$ 3,567,408</u>

Changes in Long-Term Debt Component Unit (Public Facilities District)

CHANGES IN LONG-TERM DEBT (PUBLIC FACILITIES DISTRICT)

	<u>1/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11</u>	<u>Due Within</u> <u>One Year</u>
Due to Primary Government Bonds	\$ 5,310,000	\$ -	\$ (180,000)	\$ 5,130,000	\$ 195,000
Note Payable	392,736	-	-	392,736	-
Less deferred amounts:					
For issuance discounts	(62,203)	-	3,660	(58,543)	(3,660)
Due to Primary Government (net)	<u>5,640,533</u>	-	<u>(176,340)</u>	<u>5,464,193</u>	<u>191,340</u>
Notes Payable	5,885,000	-	(95,000)	5,790,000	105,000
Less deferred amounts:					
For issuance discounts	(44,377)	-	2,017	(42,360)	(2,017)
Due to Other Governments (net)	<u>5,840,623</u>	-	<u>(92,983)</u>	<u>5,747,640</u>	<u>102,983</u>
Total Long Term Debt	<u>\$ 11,481,156</u>	<u>\$ -</u>	<u>\$ (269,323)</u>	<u>\$ 11,211,833</u>	<u>\$ 294,323</u>

5. LEGAL DEBT MARGIN

State law sets the County's limitation on external long-term debt and the remaining debt that may be incurred is as follows:

<u>PURPOSE OF</u> <u>INDEBTEDNESS</u>	<u>REMAINING</u> <u>CAPACITY</u>
General Government (No vote required)	\$ 104,659,735
General Government (Vote required)	\$ 196,628,269

6. CAPITALIZED LEASES

The County has entered into two separate lease agreements as lessee for computer servers and related equipment. These lease agreements qualify as capital leases for accounting purposes, as, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The value of assets acquired through capital lease for governmental activities is \$43,533 (\$111, 607 less accumulated depreciation of \$68,074).

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2011, were as follows:

2012	25,833
2013	17,885
2014	<u>7,453</u>
Total minimum lease payments	51,171
Less amount representing interest	<u>(3,682)</u>
Present value of minimum lease payments	<u>\$ 47,489</u>

NOTE 10 –CLOSURE AND POST CLOSURE CARE COSTS

State and federal laws and regulations require municipal solid waste landfills to place a cover on their landfills and perform certain maintenance and monitoring functions at the site for up to thirty years after closure. Although closure and post closure costs will be paid near or after designated areas of the landfill are filled, the County is required to report a portion of these closure and post closure care costs as an expense and as a liability in each period that the landfill accepts waste.

The County reported **\$13.5 million** as landfill closure and post closure care liability at December 31, 2011. This represents the cumulative amount reported to date based on the capacity used. This cost is an estimate; actual costs may be higher due to inflation, deflation, changes in technology or changes in applicable laws or regulations.

The County's landfill consists of two separate regulatory units, the unlined landfill and the lined landfill.

The unlined landfill was at full capacity in 1992 and is monitored under WAC 173-304, which requires a twenty year monitoring period. This landfill was treated separately under Washington State regulations. As a result, 100% of the postclosure care costs have been included as a liability, in the amount of \$1.3 million. Although monitoring requirements for this section are 20 years, the County is recognizing 30 years of postclosure monitoring voluntarily, due to the difficulties of monitoring this site separately from the lined site. The voluntary postclosure costs for the additional ten years is included in the liability.

The lined landfill is at **91** percent of the estimated refuse capacity at December 31, 2011. As a result, **\$12.2** million is reported as landfill closure and post closure care liability, related to this section of the landfill. The county will recognize the remaining estimated costs of closure and post closure care of **\$1.2 million** as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care at the end of 2011. The estimated life for the landfill is 2 years, with final closure in 2013. This landfill will close under WAC 173-351 requirements implemented by the Washington State Department of Ecology and the Cowlitz County Environmental Health Department. The lined landfill is required to be monitored for 30 years after closure.

Cowlitz County is required by state regulations to accumulate funds over the remaining life of the landfill to provide for the closure and post closure care. The County is in compliance with these requirements. At December 31, 2011 the County had **\$13.5** million in cash and investments held for these purposes. The amounts are reported as restricted cash and investment on the balance sheet.

NOTE 11 – CONTINGENT LIABILITIES

Cowlitz County has recorded in its financial statements all material liabilities, including an estimate for situations, which are not yet resolved, but where, based on available information, management believes it is probable that the County will have to make payment. In the opinion of management the County's insurance policies and/or self insurance reserves are adequate to pay all known or pending claims.

Cowlitz County participates in a number of federal and state assisted programs. The grants are subject to an annual audit, principally the federal programs. The audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the contracts. At this time there are no known disallowed expenditures and if any disallowed expenditures should result it is estimated that such amounts, if any to be immaterial.

NOTE 12 – OTHER DISCLOSURES

A. RELATED PARTY TRANSACTIONS

The Cowlitz County Solid Waste fund currently has a loan receivable issued to the County's discretely presented component unit PFD (Public Facility District) up to \$810,000 to cover shortfalls in retained sales tax receipts. The balance is currently \$392,736. Loan is to be paid back when funds are not restricted for other debt, but must be repaid by July 1, 2033. No scheduled payments, but interest accrues monthly (and is paid annually) at the Washington State Local Government Investment Pool rate.

B. SUBSEQUENT EVENTS

The County is in the process of initiating a bond refunding of the 2002 and 2003 bonds with a projected amount of \$8.6 million. The offering will take place mid-May 2012.

The County is in negotiations to purchase a landfill with a projected cost of approximately \$26 million. If the purchase is successful, the finalization will be in 2013.

The County is unaware of any other subsequent events that would materially effect the financial statement presentation.

C. ACCOUNTING AND REPORTING CHANGES

The County implemented GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions during the year ended December 31, 2011. This objective of this statement is to improve the usefulness and understandability of governmental fund balance information. It provides more clearly defined categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. It also clarifies the existing governmental fund type definitions to improve the comparability of governmental fund financial statements and help financial statement users better understand the purposes for which governments have chosen to use particular funds for financial reporting. The County replaced the reserved and unreserved fund balance classifications with nonspendable, reserved, committed, assigned and unassigned within the equity section of the Governmental Funds Balance Sheet.

The County removed the note disclosure regarding following pre-November 30, 1989 private sector accounting. This was done because it early implemented GASB 62, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. With this statement, the Governmental Accounting Standards Board included former FASB guidance that relates

**Cowlitz County, Washington
Required Supplementary Information
Other Post Employment Benefit
Schedule of Funding Progress**

LEOFF 1 Retiree Medical Benefits

Fiscal Year Ended (Note 1 & 2)	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Unfunded Actuarial Accrued Liabilities (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2007	\$ -	\$ 7,772,118	\$ 7,772,118	0%	\$ 202,510	3838%
12/31/2010	\$ -	\$ 6,379,253	\$ 6,379,253	0%	-	0%

Note 1 = Actuary valuation conducted every three years.

Note 2 = Alternative method used for valuation.

COWLITZ COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2011

FEDERAL AGENCY PASS-THRU GRANTOR	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER IDENTIFICATION NUMBER	EXPENDITURES		NOTE REFERENCE
				FROM PASS THRU AWARDS	FROM DIRECT AWARDS	
				Total		
U. S. Dept. of Agriculture:						
SPI	School Breakfast Program	10.553	none provided	\$ 13,979	\$	13,979
SPI	School Lunch Program	10.555	none provided	20,098		20,098
WSDH	St Admin Matching Grants for Food Stamp Program Schools & Road Grants to States	10.561 10.665	C14945 09-PA-11060300-014	2,912	\$ 182,319	2,912 182,319
TOTAL DEPT. OF AGRICULTURE				36,989	182,319	219,308
U. S. Department of Housing & Urban Development:						
WA Commerce	Community Dev Block Grant/State's Program & Non-Ent Grants	14.228	09-64009-023	291,198		291,198
LHA	Housing Opportunities Persons with AIDS	14.241	none provided	217		217
TOTAL DEPT. OF HOUSING				291,415	-	291,415
U. S. Dept. of Justice:						
WA Commerce	Drug Court Discretionary Grant Program	16.585	none provided		74,679	74,679
BJA	Violence Against Women	16.588	10-31103-09	17,070		17,070
BJA	State Criminal Alien Assistance Program	16.606	none provided		36,381	36,381
WA CJTC	Bullet Proof Vest Partnership Grant	16.607	2008/2009 BVP Program		3,085	3,085
WA Commerce	Comm Pros & Project Safe Neighborhoods	16.609	none provided	62,911		62,911
WA Commerce	Edward Byrne Memorial Justice Assistance Program	16.738	34021-007	218,626		218,626
WA Commerce	ARRA-Edward Byrne Mem Just	16.803	F09-34721035A	100,074		100,074
TOTAL DEPT. OF JUSTICE				398,581	114,145	512,826
U.S. Dept of Transportation: Highway Planning Construction						
WSDOT	FEDERAL HWY ADMIN	20.205	Various	706,457		706,457
TOTAL DEPT. OF TRANSPORTATION				706,457	-	706,457
U.S. Dept of National Highway Traffic Safety Administration						
WTSC	State and Community Highway Safety	20.600	Speeding Emphasis	1,914		1,914
WTSC	Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	Drive Hammered Get Na	2,108		2,108
WTSC	Occupant Protection	20.602	Click It or Ticket	1,635		1,635
TOTAL DEPT. OF NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION				5,657	-	5,657
U.S. Dept of Transportation: Pipeline and Hazardous Materials Safety Administration						
WSMD	Interagency Hazardous Materials Public Sector Training & Ping Grants	20.703	E11-089	8,600		8,600
Total U.S. Dept of Transportation: Pipeline and Hazardous Materials Safety Administration				8,600	-	8,600
U.S. Dept of Environmental Protection						
WA DOE	ARRA Capitalization Grants for Clean Water State Revolving Funds	66.458	L10S0021/L100021	78,091		78,091
WA DOE	ARRA Capitalization Grants for Clean Water State Revolving Funds	66.458	L10S0021/L100021	149,930		149,930
WSDH	Capitalization Grants for Drinking Water State Revolving Funds	66.468	Loan Portion C14945	5,565		5,565
TOTAL DEPT. OF ENVIRONMENTAL PROTECTION				233,586	-	233,586
U.S. Dept of Energy						
WA Commerce	ARRA Energy Efficiency and Conservation Block Grant Program	81.128	F10-52110-023	113,414		113,414
Office of Elementary and Secondary Education				113,414	-	113,414
ESD112	Safe and Drug-Free Schools and Communities National Programs	84.184L	Various	294,945		294,945
TOTAL OFFICE OF ELEMENTARY & SECONDARY EDUCATION				294,945	-	294,945

COWLITZ COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2011

FEDERAL AGENCY PASS-THRU GRANTOR	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER IDENTIFICATION NUMBER	EXPENDITURES		Total	NOTE REFERENCE
				FROM PASS THRU AWARDS	FROM DIRECT AWARDS		
U.S. Dept. of Health & Human Services:							
WSDH	Public Health Emergency Preparedness	93.069	C14945	135,458		135,458	
WSDH	Environmental Public Health and Emergency Response	93.070	C14945	30,223		30,223	
WSHHS	Projects for Assistance in Transition from Homelessness (PATH)	93.150	Various	45,136		45,136	
WSDH	Affordable Care Act (ACA) Abstinence Education Program	93.235	C14945	36,250		36,250	
	Substance Abuse & Mental Health Services - Projects of Regional & National Significance				255,766	255,766	
WSDH	Childhood Immunization	93.243	1H79TIO23401-01	-			
WSHHS	Temporary Assist for Needy Families	93.268	C14945	28,551		28,551	
WSDCS	Child Support Enforcement	93.558	0963-65366	4,875		4,875	
WA SOS	Voting Access Individuals w/Disabilities	93.563	Various	531,794		531,794	
WSHHS	Medical Assistance Program	93.617	EAD G-10/323	26,376		26,376	
Clark County	HIV Care Formula Grant	93.778	0963-53325	319,363		319,363	
WSHHS	BG For Community Mental Health Services	93.917	HDC.305, HDC.405	56,620		56,620	
WSHHS	BG For Prev & Treatment of Substance Abuse	93.958	Various	44,899		44,899	
WSHHS	Prev Health & Health Services Block Grt	93.959	Various	155,845		155,845	
WSHHS	Maternal Child Health Services Block Grant	93.991	C14945	13,750		13,750	
		93.994	C14945	132,319		132,319	
	TOTAL HEALTH & HUMAN SERVICES			1,561,459	255,766	1,817,225	
Executive Office of the President							
	High Intensity Drug Trafficking Areas Program	95.001	Various		48,368	48,368	
U.S. Dept of Homeland Security							
WSMD	Interoperable Communications Equipment	97.055	E10-078A	20,876		20,876	
WSMD	Disaster Public Assistance PDD	97.036	Various	995,810		995,810	
WSMD	Hazard Mitigation Grant	97.039	E10-014	11,553		11,553	
	Homeland Security Grant Program		E09-140, K458, K302,				
WSMD	Emergency Management Performance Grants	97.067	E10-190	58,276		58,276	
CRESA	Law Enforcement Terrorism Protection Program	97.042	Various	56,497		56,497	
		97.074	CO80639FED	-		-	
	TOTAL DEPT. OF HOMELAND SECURITY			1,143,012		1,143,012	
	TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 4,794,215	\$ 600,598	\$ 5,394,813	

Note 1 - BASIS OF ACCOUNTING
 The schedule is prepared on the same basis of accounting as the county's financial statements. The county uses the modified accrual basis of accounting for governmental funds and full accrual basis for proprietary funds.

Note 2 - PROGRAM COSTS
 The amounts shown as current year expenditures represent only federal, state or local grant portion of the program costs. Entire program costs including the county's portion may be more than shown.

Note 3 - American Recovery And Reinvestment Act (ARRA) of 2009
 Expenditures for this program were funded by ARRA.

Note 4 - FEDERAL LOANS

In 2010 the county was approved by the Department of Ecology to receive a loan totaling \$223,157 for water sewer improvements. Only \$629 was received in 2010. In 2011, the County received another \$149,930. The loan is reported on the county's Schedule of Long-Term Liabilities.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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Deputy Chief of Staff
Chief Policy Advisor
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Director for Legal Affairs
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